



# ROYAL BANK OF CANADA INVESTOR DAY TUESDAY APRIL 29, 2008

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## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. We may make forward-looking statements in these speakers' notes, in other filings with Canadian regulators or the SEC, in reports to shareholders and in other communications. Forward-looking statements include, but are not limited to, statements relating to our medium-term and 2008 objectives, our strategic goals and priorities and the economic and business outlook for us, for each of our business segments and for the Canadian, United States and international economies. Forward-looking statements are typically identified by words such as "believe," "expect," "forecast," "anticipate," "intend," "estimate," "goal," "plan" and "project" and similar expressions of future or conditional verbs such as "will," "may," "should," "could," or "would".

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our objectives, strategic goals and priorities will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include credit, market, operational, liquidity and funding risks, and other risks discussed in our Q1 2008 Report to Shareholders and our 2007 Report to Shareholders; general business and economic conditions in Canada, the United States and other countries in which we conduct business, including the

impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in various other financial markets; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, British pound and Euro; the effects of changes in government monetary and other policies; the effects of competition in the markets in which we operate; the impact of changes in laws and regulations; judicial or regulatory judgments and legal proceedings; the accuracy and completeness of information concerning our clients and counterparties; our ability to successfully execute our strategies and to complete and integrate strategic acquisitions and joint ventures successfully; changes in accounting standards, policies and estimates, including changes in our estimates of provisions and allowances; and our ability to attract and retain key employees and executives.

We caution that the foregoing list of important factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these and other factors can be found in our Q1 2008 Report to Shareholders and in our 2007 Report to Shareholders.

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## PRESENTATION

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### **Marcia Moffat - Royal Bank of Canada – Head, IR**

Why don't we get started? Thank you, everybody, for joining us here today. I just want to cover a few housekeeping items before we begin, and then I'll turn it over to our CEO, Gord Nixon, to speak to you. First of all, you'll see a blue sheet of paper in your packages. This is a short survey on today's event. At the end of the morning's session, we'd very much appreciate you taking a couple of minutes to complete it. It's a very short survey, and your feedback is very helpful to us.

Also, turning to slide three, I need to remind you that all remarks, including those made during the question period, may include forward-looking statements, which have inherent risks and uncertainties. This slide contains our caution regarding forward-looking statements, which describes factors that could cause our actual results to differ materially from the statements.

And just another comment before we begin. I'd like to highlight a release that we issued yesterday in response to an analyst report that some of you may have seen. We do believe the report contains significant errors in fact and significantly overstates both the risks and the amount of any potential writedown RBC might incur. However, as our second quarter has not yet ended, we are not in a position to quantify valuations for you today and we will not be discussing our Q2 results at today's session.

We are closing our books this week. We will then go through the rigor of our quarterly close process and will report back to you in the context of our Q2 reporting and we very much look forward to discussing our Q2 results with you on our regular quarterly call, which is scheduled for May 29th. With that aside, let me now pass the podium over to our CEO, Gord Nixon.

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### **Gordon Nixon - Royal Bank of Canada - President, CEO**

Thank you very much, Marcia, and I too would like to thank everybody for joining us today. I hope you can all hear me well. I apologize for my cold and hoarse voice, but on behalf of all of us, we welcome you here today. I too would just reiterate what Marcia said and assure our investors that our exposures are certainly well within the risk limits that we have as an organization and are manageable.

We have a full agenda for this morning, which is laid out on slide four. We will be taking you all the way through, from strategy to execution. We believe that we do have the right strategies in place for our businesses to succeed and that we will execute against our strategies and have executed as well, or better, than most of our competitors. We believe that great companies need to be excellent in both their strategies and their execution and that is our goal and it's particularly important in an environment like today, with all of the uncertainty.

Let's take a look at our agenda for this morning. Dave McKay is our first speaker and will talk to you about our Canadian Banking strategy and how we are winning in that market. George Lewis will then discuss our Wealth Management strategies and key success factors. Barb Stymiest and Morten Friis will take you through our disciplined approach to risk management, which leads to our strong risk profile. And, finally, Janice Fukakusa will talk about performance management and how we take an enterprise approach to partnering with our businesses in order to help them execute on their strategies. And I think you'll find by the end of the day, the morning, you'll have a tremendous amount of insight and information into a lot of the day-to-day goings on across our organization.

Now, moving to slide five, let me start off by talking about the market environment that we face in 2008. As you know, today, we are in a very different world than we were six months ago. First, we have had a major crisis in the credit market, particularly in the U.S., that was initially driven by residential real estate,

but has now spread. A credit crisis that was certainly manageable has moved into a crisis of both confidence and liquidity.

One of the biggest issues that the system is facing today is around the funding of banks and bank balance sheets worldwide, and investment dealers. We have a system where there are trillions of dollars of assets on the balance sheets of banks and investment banks around the world that have to be financed day in and day out.

Those that don't have large core deposit bases and strong access to wholesale funding are facing a very tough environment indeed. Compounding this are things like mark-to-market accounting rules, which are creating earnings volatility. One of the big questions is how much of the writedowns are mark-to-market issues, rather than permanent impairments and therefore will eventually be brought back into earnings.

This is leading to more confusion and transparency issues across the marketplace, and certainly also with many of our investors. Now, I can tell you that we have listened to your questions and concerns. At every step, our goal has been to be transparent and responsive, and I do believe that we have amongst the best disclosure of financial institutions globally.

In Q1, we provided detailed disclosure around areas such as structured credit, monoline protection, U.S. builder's finance and U.S. asset-backed paper, including auction rate securities. Our goal for Q2 is the same with respect to transparency, and we will be compliant with the recommendations of the Financial Stability Forum in our Q2 results. We are closing the books, as Marcia said, on April 30th, and we'll be valuing our positions as of that date and report to you in the context of our Q2 reporting.

Let me assure you that we are not happy about taking any writedowns and certainly do not take them lightly. That said, it is important to recognize that we have a large and very diversified capital market platform, a successful one that we're going to continue to invest in. But, as a result, we have had involvement in businesses that have been impacted by the U.S. market turbulence. The difference between RBC and some of our competitors and other institutions that you've seen is that we try not to be overly weighted in any single business, and this has served us well.

While we have suffered in some of our operations, we have not had the same degree of concentration that some of our competitors have had in those areas. Our exposures and writedowns are well within our risk limits and tolerances and we have maintained our risk profile within the risk appetite of the organization. RBC's risk profile compares favorably to peers in Canada and around the world. The Canadian economy and consumer fundamentals are strong and housing prices are continuing to perform well in Canada and our consumer debt is relatively low.

We have many businesses that are performing well and our overall organization is in good shape. I believe our position today is a testament to our diverse businesses working together, our organization's strong risk management culture, as Barb and Morten will discuss later this morning, as well as our performance management discipline.

While there are near-term challenges, I believe that they are manageable and I am confident about the future. We are reverting back to an environment with significantly reduced leverage and a much greater reliance on banks and bank relationships, and this certainly plays into RBC's strength. And, as I've mentioned several times over the past nine months, RBC has historically pulled away from the competition during times of turmoil.

I can tell you that we are already seeing this today. On slide six, you'll see that since we last met last year, the competitive importance of RBC's financial and business strength and stability has increased. This is attracting clients and advisers to our organization, and it is enabling us to continue to access term funding at very attractive spreads, which, as I mentioned earlier, is a real constraint for many other financial institutions, both in Canada and around the globe, who are finding themselves struggling to fund their balance sheets.

In addition, over the past year, we've increased our market share in key products and services across all of our business segments. Our relative size has also increased. We are now the fifth-largest bank in North America and 26th, globally, by market cap. And, finally, the value of our brand has increased, according to the latest report of BrandZ, an annual study that measures the dollar value of brands globally. Brand is critically important to our ability to attract and retain customers during these difficult market conditions.

Turning to slide seven, as we look forward, the key thing for RBC is to stay very focused around our strategic goals: to be the undisputed leader in financial services in Canada, to build on our strengths in the U.S. and to be a premier provider of selected global financial services.

With a business as complex and diverse as ours, it is critically important that we take a bird's eye view of performance trends when allocating our resources. Using a disciplined performance management framework, we can better understand the growth rates required by each of our businesses if they are to be successful.

Business leaders in turn translate these growth rates into initiatives, effectively saying what they're going to commit to in order to achieve growth. It is important to remember that different businesses are at different stages in their cycle. At any time, we may have some of our operations exceeding beyond plan, while others face challenges. Our performance management framework allows us to actively prioritize initiatives and allocate resources while balancing revenue and cost initiatives. We have the resources to continue to invest in businesses showing strong traction and, at the same time, actively manage our underperforming businesses.

Janice will elaborate further on these points in her section. We intend to continue to be very disciplined in managing our cost structures, but we are not looking to slash costs if it means that we are going to weaken our franchise. I believe we are a well-managed company, but we will take nothing for granted. Our focus on managing costs while enhancing our client relationships provides us with the opportunity to significantly differentiate ourselves in this environment and come out even stronger as the dust settles.

We have all the necessary ingredients to do this, with a lot of advantage over many of our competitors -- market leadership, client focus, good balance sheet, strong capital ratios and senior debt ratings, as well as excellent access to funding.

Slide eight depicts the key elements that we believe will enable us to achieve long-term success. First, businesses delivering advice while collaborating to the benefit of our clients. We believe our value proposition of providing clients with trusted advice will become even more relevant to them as we move through these turbulent and uncertain times. And our businesses continue to collaborate so that they can provide our clients with the full benefit of the scale and our enterprise-wide capabilities.

By this, I don't just mean a given business segment, but across segments, as well. For example, referral from our branches to our Wealth Management business, our capital markets products being sold through our brokerage operations.

Second, enterprise-wide foundation for business success. This is about making it easier for our clients to do business with us, having strong technology, removing roadblocks and having prompt decision making in areas such as credit approval. And these two pieces are overlaid with effective performance management that helps our businesses execute on their strategies and helps us prioritize revenue and cost initiatives for the greatest impact.

Turning to slide nine, let me take a step back for a moment to our Client First initiative. Prior to 2004, we had lost some focus on our clients. When we launched our Client First initiative, it was about putting the client front and center in all of our business activities, by breaking down silos within our organization and reallocating costs from the back end of our business to the front end, where people deal with clients. Over

the last four years, we've made great progress and the result today is that we have better insight into our clients' needs, more collaboration across our organization, higher client loyalty and more opportunities for cross-selling.

It has enabled us to be in a better position for RBC's enterprise-wide capabilities to be offered to our customers. And Synovate is ranking us number one in "Branch Service" and number one in "Value for Money", which are areas where we want to be a leader. We are differentiating ourselves from the competition, and I can confidently say that no one provides clients with more access to valued advice across more business platforms than we do.

Our Client First approach was an important driver behind our recent management changes. Slide 11 shows our realigned structure. As you know, I put Jim Westlake in charge of International Banking and Insurance and we have put Dave McKay in charge of Canadian Banking. Both have been instrumental in driving our Client First breakthroughs in our Canadian Banking segment.

Our Canadian retail operations have performed well under Jim's leadership and the change to our management structure was partially a result of that success, as well as the importance we are placing on operational performance and growth in our U.S. and Caribbean banking operations. The businesses reporting to Jim include U.S. Banking, as well as our Caribbean activities, insurance and some of our international businesses related to the banking arena.

This creates a platform that Jim is very well suited to, and I believe he will provide us great leadership, not only to our organization, but to the management that run those businesses. Also, I welcome Dave McKay to our leadership team. Dave is certainly well known in the Canadian banking industry, and he has played a major role with respect to the success of our operations in Canadian Banking. He has run several of our banking businesses. He has shown terrific leadership and has been well endorsed and supported by all of his colleagues. And, with that, I now have the pleasure of turning over to Dave McKay.

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**Dave McKay - Royal Bank of Canada – Group Head – Canadian Banking**

Thank you, Gord, and good morning, everyone. So I'm here to talk about Canadian Banking, and I'm going to start by giving you an overview of the tremendous momentum and success we are enjoying in Canadian Banking and then spend some time outlining why we've been successful, a very important pause to say we really focused on why we're being successful, what we need to nurture and what we need to focus on changing to continue our success and build on the future.

So I'm going to start with slide 13. Canadian Banking contributes 50% of the revenue and earnings of RBC, underpinned by five top-performing businesses, home equity, personal lending, cards, investments, commercial and small business lending. We have extended our lead across all major personal and business product lines since we last spoke to you, maintaining and growing our number one or two rankings in each product category.

But our focus is not just on volume growth. It has to be profitable growth. And we have grown revenue and NIAT faster than our Canadian peers, with revenues growing at a rate 50% greater than the peer average over the last four years.

So let me give you a specific example of the tradeoffs that we make and the discipline that we show, and it's the long-term builder mortgage markets, a market in Canada where we have pulled back from the market due to poor economics of offering long-term rate caps to consumers, with no firm customer commitments, a practice where we cannot earn a return on risk or capital, so we have left it to our other competitors to fight for volume without dropping.

And when you see all of these large skyscrapers going up and all the condos going up, it's not an insignificant market, but one that we just really can't make money in. We've made tough tradeoffs around profitability. We have clearly leveraged our largest and broadest distribution network in Canada to drive our success. This provides a formidable competitive platform and the power of this network is enhanced significantly by the holistic integration across channels, sales roles, products and processes around the customer. RBC clients get smart financial advice where and when they need it.

No one makes it easier for clients to get access to valued advice and service. I will give you some examples of this as we move on through the presentations and make it concrete. Finally, we have grown our lending balance sheets prudently, using strong risk management practices. Our strong customer value propositions have attracted high-quality competitor customers, so we have not changed our risk strategy to obtain volume growth. Moving on to slide 14. As you see on this slide, our strong volume growth and market share gains have resulted in RBC taking a disproportionate share of the retail revenue growth in Canada, among the big five, and we have focused on profitable business but have not traded margins for growth.

So we are growing at an absolute faster rate than our competitors, on a much larger base. So when you look at the absolute dollar volume growth, we are just gaining a disproportionate share of the volume growth. When you can grow at that rate -- at a greater rate than your competitors, on a much larger base, as you know, just mathematically, we're getting a huge share of that home equity volume growth, that consumer lending volume growth, that investment growth.

On slide 15, and as a result of our focus on both revenue and operating expenses, we have continued to grow NIAT faster than our peers, but perhaps what is equally as important is that we have disciplined cost management in banking-related operations through a period where we're reinvesting significantly in our networks, with new branch openings, extended hours, more mobile sales specialists and more call center staff.

Turning to slide 16, for those of you who are following along online, we have spent a lot of time asking ourselves why have we been successful in the customer's eyes? We are always looking at what we need to do in order to nurture and grow and what we need to change to be better, and it really comes down to this slide.

In order to be a full-service, one-stop retail bank, you must meet all four customer needs, not two, not three, all four. You have to deliver against these four needs -- convenience, advice, value for money and service. There is no other financial institution that can compete across all four dimensions and all four customer needs as well as RBC can. This is where I spend a lot of my time thinking about these needs, how we address these needs, how we compete on these, how they're integrated together in a holistic offering to the client. This is how we're winning, and I'm going to give you some more examples.

We lever the skills of our people, our physical assets and our brand to deliver against these four needs better than anyone else. For example, some of our competitors are focused on service and convenience as defined by hours of business. While this may work well in the everyday banking market and they've seen success in that market, it does not extend well into home equity or investments, where convenience is defined by seven-day-a-week access to valued service and advice, where you meet the customer on their time, at their choice of locations.

Only we offer unparalleled advice through our mobile mortgage specialists, mobile investment specialists, financial planners and branch relationship managers. This is all underpinned by the strongest brand in Canada that provides the foundation to attract and retain loyal customers. Without the brand strength, even the strongest network can come unglued. As you can see, we have brand right at the bottom, holding it up.

Now, on slide 17, as I mentioned at the beginning of the presentation, how we integrate across sales roles, channels and businesses creates a powerful team working on behalf of the client. Just imagine how

of much a differentiator this is if you put yourself in the customer's shoes and look at the organization. From online to call center to branch to mobile specialist, all integrated around the customer by a culture of putting the customer first, one customer-level risk-scoring system, a performance management system which rewards customer-level success across the platform and best-in-class CRM, supporting all channels.

So our whole infrastructure, the way we work together, this slide really brings it together. It's not just about being the biggest, even though we are the biggest and that's a key success, but that strength is enhanced significantly when you combine it and you work together and collaborate the way we do.

So let me give you a specific example. It's Saturday morning. A client has just seen a home they are interested in online. They are busy, so they phone our call center, and we arrange for a mortgage specialist to visit them on Sunday morning, which is most convenient to them. We take the application and firm up the financing approvals. Now they can shop with confidence.

We ask the customer if they have a realtor. If not, we refer one, cementing a very important referral relationship between the realtor and the mortgage specialist, a key center of influence. The same goes if they use our online channels. We will have a dedicated mortgage specialist contact them within 24 hours. Actually, given it's a commissioned sales force, they'll usually call within two hours, but our guarantee is you'll get a call within 24 hours.

You can't do this in a broker channel. Competitors who use broker channel cannot refer from online, from call center, from branch back to the mortgage specialists. So because we have the largest dedicated mortgage specialists and investors, that cross-referral system, that really creates a power around the customer, and the customer feels that and the customer feels the organization working on their behalf.

Once the deal closes, the mortgage specialist anchors the client back to the branch through a formal process. This type of collaboration helps us retain 95% of our booked mortgages. You could take this same story and replace the mortgage example with an investment product. In this case, we lever the skills and responsiveness of 580-plus investment representatives to provide clients with the same level of valued service and advice.

Turning to slide 18. Okay, so just in case you missed the message the first time, we've got the largest, most integrated advice-driven distribution network in Canada, with 2,000-plus mobile career sales force specialists, the largest branch and the largest ATM network and over 3 million customers online.

This network gives clients unparalleled access and convenience to all banking services at the same price points as our competitors with smaller networks. We don't charge more for mortgages. We don't charge more for deposit accounts. We don't have higher MERs. We offer the breadth and depth of our network at the same price point. That is a formidable competitive offer that is very difficult to replicate in the market.

You can imagine our competitors looking at the breadth and strength of our network and if they're trying to match it, they can't raise prices. They've got to steal customers at the same price point. That is a compelling barrier to competition.

So moving on to slide 19, you'll see it over the last year, we've extended our leadership position in Canada, with very strong momentum and to the end of Q1 2008, year over year, we have increased home equity lending by 17% on the largest base of mortgages in the country, personal core deposits by 16% and business loans by 10%.

Of note are strong gains in deposit product balances and market share, because, as you may remember, we spent quite a bit of time last year at investor day talking about how we're going to turn around our struggling deposit business. We completely revamped our entire everyday banking and savings lineup, reduced and simplified our core account lineup from 17 products down to seven and addressed key

customer irritants in the market, such as minimum balance free banking and third-party ATM charges, all resulting in much better value, access and simplicity for our clients.

Our core philosophy remains that customers want to be rewarded for the depth and breadth of their relationships. We allow customers to exercise their purchasing power within our organization without having to fragment their banking relationship across multiple institutions, a model that you see in the U.S. The customer will exercise their purchasing power, and you have to give them that opportunity through meaningful reciprocity to do it within your own organization to consolidate share of wallet.

So we give them a very strong reason to bank with us and we offer the best value, based on a combination of our multiproduct rebates that are unique in Canada and the best products in the industry. These products include Avion, our Homeline home equity products, our top-ranked lineup of mutual funds, year in, year out, top performing. Customers don't have to compromise anything to bank with us.

Further examples, since the launch of HISA, one of our core new product offerings, which we talked to you about last year, we have opened over 500,000 new accounts, 500,000 in 12 months, with over \$7 billion in balances. And it's great to tell you that 50% of these balances are now new money to RBC, external money coming back, coming into RBC.

Part of the success is we have addressed the client needs, the convenience and value of having your HISA where you actually want to do your banking. The other part is we have made it online only, allowing us to minimize the cost of opening an account, something we talked about again last year in response to a question. We saved over \$50 million in account opening costs last year, something that doesn't show up in our net interest margins.

One of our core priorities was and is to continue to improve the customer experience. We are extremely proud of our progress over the past year. We are ranked first among Canada's major banks for "Branch Service" and "Value for Money" by Synovate. We were ranked the number-one domestic private bank in Canada for best overall private banking service.

Direct Investing received Dalbar's 2007 direct brokerage service award for best overall service and we were ranked first by our business clients on a key driver for client loyalty by the Maritz Market Intelligence survey. So we are proud of the progress we have made in improving the customer experience. That goes without saying -- and a recognition of these high levels of satisfaction. But we are not resting on the laurels of a few surveys.

Improving the customer experience has become embedded in our way of thinking and the real proof point is that customers are voting with their wallets and bringing their business to RBC. That's all that matters at the end.

Finally, we are continuing to make disciplined revenue growth and cost management a priority. We increased our revenue-generating capacity by investing significantly in the sales force and contact center, as you know, adding 1,500 new full-time employees and 30 new branches. We are seeing the benefits of this new capacity show up in home equity volumes. We just talked about deposit volumes, mortgage retention rates and new credit card acquisitions.

We are carefully managing our costs. Moving on to slide 20, we are winning at the client level, and, as I said before, clients are voting with their wallets. This has translated into market share gains across all key products, as shown in slide 20. The one area that I highlighted as an area for improvement last year is personal core deposits, and we are turning that area around, as you will see on the next slide, slide 21. The complete redesign of our transaction and savings deposit business implemented around this time last year is clearly working, as you can see from significant gains of 48 basis points over the last year.

And this has been profitable market share, as we talked about, has 50% of our HISA volumes have come from outside of the organization. So turning to the future, on slide 22.

As Gord referenced, no doubt there are some challenges facing the industry in the near term. We are facing rapidly compressing deposit margins, both from a systematic and competitive point of view. We are in a better position to balance the funding challenges relative to most peers, as we have excellent access to wholesale funding and are growing deposits at the same time. Barb will discuss this advantage a little later on in the morning.

So our three core strategic priorities have not fundamentally changed, and we will focus on executing on these priorities as we work through the current industry challenges and we focus on widening the gap over our competitors. First of all, we will continue to improve the customer experience and never relenting focus on getting better. Our goal is to be number one in likelihood to recommend among banks. But, as an industry, we still lag best-in-class retailers, and our goal is to learn and apply best-in-class retailer customer experience strategies, such as focusing on key life events and moments of truth, rewarding customers for their loyalty and providing those small, unexpected actions that really cement relationships. It has to be part of your culture. It's something that we really cannot script.

In cards, we will continue to add value to our customer offerings, enriching the RBC Rewards program to differentiate and grow our best-in-class loyalty program. In business banking, we will expand our strength and industry specialization in order to provide industry-specific expertise of businesses and business owners. The scale of our commercial operations allows us more flexibility to do this than our competitors.

Second, we will drive greater network efficiencies, as we have a significant opportunity to leverage our growing economies of scale, by, one, simplifying the way we do business, rationalizing the product lineup, rewriting policies from a customer and sales force point of view and rethinking procedures that have been around for many, many years.

Second, and maybe more significantly, we are reengineering end to end our most expensive processes in the mortgage business and our commercial credit delivery. Both very significant projects are well underway and offer exciting new opportunities for us across a number of dimensions.

In order to combat some of the challenges, we are accelerating our focus on looking at all the processes and continuing to find efficiencies. When we started Client First, we drove a lot of our costs out of the business by geographically centralizing our back office into one central operation in Toronto. Now we are getting at the heart of these processes themselves now that they're in one location and easier to see and working out the inefficiencies and costs.

And, finally, we will focus on adding new clients and growing our share of wallet by winning in the new immigrant market space, taking advantage of the market environment to attract clients with our brands, rewarding the customer in a meaningful way with offerings like the multiproduct rebate so they will consolidate their business with us. We at RBC are in a unique position of strength to accomplish this.

So, in summary, we have strong business momentum. Our franchise is built on the largest distribution network in the country, with true national balance. We integrate across channels, roles and businesses better than the competition and we deliver against the four key customer needs better than anyone else. And because we execute on our priorities, clients are voting with their wallets and rewarding us with their business. We will remain focused on driving the business forward, watching our revenue and expense growth carefully and prudently growing our lending business.

Thank you for your attention today, and I would be happy to answer any questions, which I know you'll have.

## QUESTION AND ANSWER

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### **Unidentified Audience Member**

-- schools and selling them other products, is there any data that you can share on that share of wallet with investors, so that we understand how successful Royal is at getting multiple products from an individual customer.

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### **David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

I can't give you benchmarks against the other industries, because I don't think we report. Average products per customer is a really misleading term that's used across North America in that most banks define product categories differently, so some banks say if you've got three checking accounts with us, they count that as three products.

So when you see Wells Fargo say that they sell 11 products per customer, it could be six checking accounts and three credit cards and an investment. So we define product categories as average products per client, so our comparisons are really difficult to make and we don't tend to measure ourselves, as an industry, on average product per client. Our metrics are internal. We track how many customers we are able to offer the various rebates to.

What we use our CRM for is to identify those customers that are missing one product for the full rebate, so it's a very compelling call to a customer, as you can imagine. Let's take an example of our Signature No Limit account, so we waive that fee of \$14 a month if you have a mortgage investment and credit card with us.

We mine all our customers to see which ones are missing one of those three products and we call them and we say, if you bring the credit card to us, we can give you a \$14 a month package, best in the industry, with three third-party ATMs and a \$35 fee waiver on your credit card. Bring it to us. And that is a great, great call to make and customers are very open because you have their best interests in mind. There's an incredible reciprocity in that call. So we found that when we mined this data and we looked at the categories of products they were missing, customers are very receptive to coming in and talking to us, because it's meaningful. It's not a giveaway, it's \$14 every month that you keep that account with us. And it's about meaningful reciprocity and we wanted to get away from the giveaway as the only way of enticing a customer to come in.

Because once you get your iPod and there's nothing left after the iPod, what are you going to do? So the core of our reciprocity is built on giving the customer a reward every month. So the way we do it on the statement is you'll see the \$14 charge on the statement, then we'll say fee waived, thank you for your business, multiproduct rebate. So every month we remind that customer that they got something back from the Royal Bank, so it is a very effective cross-sell tool.

I can't -- for industry confidentiality, I don't want to disclose how much of this we're doing, but that's the flavor of how the call really enhances our sales force effectiveness. In the back, first.

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### **Rachel Volynsky - TD Asset Management**

Gord mentioned at the beginning of the presentation that, obviously, we're in a bit of an unusual environment, given the subprime events south of the border. So maybe I'm flipping ahead and I see that you're really not shy growing your market share and growing your business in the face of potentially major consumer recession that will maybe eventually spread to Canada.

So how do you make sure, for instance, home equity became somewhat of a dirty word south of the border, and yet you're sort of probably the fastest you're growing that business, so how do you make sure that you're not picking up business that others are ceding in this environment?

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

I'll answer that from two fronts. One, I would say that the Canadian consumer is extremely healthy right now. We're seeing record employment levels, still. We haven't seen a creep-up in unemployment, which is a key driver of financial services and ability to repay. We're seeing -- and I think the chief economist at CMHC came out last week and again looked at house prices in Canada and said that there is no bubble, that disposable income supports this type of house growth.

You're seeing a relative low interest rate environment. So you've got people working, you've got low interest rates and the relative affordability of housing is good and it will improve going forward with the lower rates. So I think you've got a healthy Canadian consumer, they've got disposable income. The relative costs of renting versus borrowing is still very attractive in Canada, so we don't see those storm clouds significantly on the horizon. We see potentially some small geographic shocks, but the beauty of our network is that we've got a well-balanced distribution arc across the country, so we are crossing from a great strength in the west. Manitoba, Saskatchewan, is booming, so we've got a balanced distribution. We don't rely on any one region.

The second point I would make is that you can't compare the Canadian and U.S. home equity mortgage market. They're just night and day. And the first distinction I'll make is on originate the whole versus originate to securitize. And in the U.S., a lot of attention. I'm not going to go into doing detail, but we all know that very, very sloppy lending practices evolved out of an originate to sell model where Wall Street was buying anything they could get their hands on, it didn't really matter how it was originated. And you've got what they call liar loans and stated income becoming prevalent.

Well, in Canada, we originate to hold. And, I'll tell you, when I said one customer risk scoring system, we use the same risk scoring for credit cards as we do for mortgages. So all Canadian banks apply great rigor to their credit standards because it's actually going on their balance sheets. So, one, you don't have the same fundamental, systematic drivers towards cutting corners around credit as you do in the U.S.

Two, you've got a product structure difference around adjustable-rate mortgages and the pay option ARMs in the U.S. versus Canada, where we just have not been nearly as aggressive on product structure, nor on the loan-to-value ratios. And, obviously, we've got CMHC backing our high-ratio loans in Canada with a government guarantee, but you still see a predominant Canadian practice of much more conservative loan-to-value ratios.

So the Canadian consumer is strong. They have not leveraged the equity in their homes nearly to the extent the U.S. has, so there is still opportunity there in a very prudent fashion and low loan-to-value ratios and you've got structural differences between the two. So I do not lose any sleep at night about our home equity business whatsoever.

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**Michael Goldberg - Desjardins Securities - Analyst**

For the sake of simplicity, we often think of the banks as all being virtually identical, and at least one area, the attitude toward the brokered mortgages, there is a clear distinction and, for one, Royal, you said that it's not an area that you're doing. But it seems clear that consumers get lower borrowing costs going through brokers than otherwise. So, in the face of that, and in the face of the fact that brokers probably aren't going away over time, how do you plan to deal with this on an ongoing basis?

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

I'm not sure how you come to the conclusion. I think over time I think you can say margins have come down because of the new players coming in, like ING, who are buying business at very, very low margins. But I'm not sure the broker, given some of their allegiances to various networks, has truly manifested that themselves. So I think they facilitated new players coming into the industry, like, say, INGs and whatnot, but I'm not sure the broker has really done that for them.

We think a lot about broker strategy, and actually we revisit it every 18 months to make sure we're doing the right thing. But when you put it into the context of our overall strategy.

So if a customer comes into your branch, your call center, your online, and you're broker based, you're not referring that out to a broker because, one, you may lose it to another competitor at the end of the day. Two, most banks aren't willing to incur that cost and, three, you may lose that anchoring relationship if they try to refi that customer in two months, as Bank of Montreal found out, and they actually exited the broker business because of the churn in their book. So you really lose control of your customer. And our fundamental philosophy is to build a relationship and add meaningful reciprocity to the customers. The broker model just doesn't work for us, and we're having enormous success by offering our brand uniquely through these mortgage specialists. And we've got 1,100 plus of them right now.

So the broker, I will say, I can't say we'd never do broker, but right now, in our current context or strategy and the collaboration that we're building and really getting to customer convenience and access to proper advice and protecting our brand, we just don't see broker fitting into our core strategy at this point, and it hasn't hurt us from a volume perspective. We're a \$140 billion-plus mortgage bank growing at 17%, by far the biggest book with the biggest growth rate. I don't think we've got a problem in originating mortgages whatsoever without doing brokers. Yes, Jim.

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**Jim Bantis - Credit Suisse - Analyst**

Dave, two questions. Do you feel compelled to get closer to TD in terms of branch hours? What's their advantage in terms of having longer branch hours and what's Royal missing out in that context? And then, secondly, at a recent investor day we heard a lot about the net promoter score and I'm wondering where Royal stands in that regard. Is it a metric that is part of the philosophy as well?

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

Yes, great questions. Extended hours. So we have got a couple of views around extended hours as part of the convenience equation. So, number one in convenience offering is actually going to the customer's home, place of work, through our specialists. Two, though, you do have to be open when the customer wants to shop and wants to visit you, so we do believe extended hours have to be a core part of our branch service offering.

So we're looking at it on a careful basis and a flexible basis, so we certainly don't plan on going head to head with TD and opening all of our branches extended hours, because we don't have to, because our convenience proposition is we're coming to you with service and value, so we don't need the same equivalency of extended hours. But there are core markets where you need to be open on Saturdays. You need to be open on extended hours on Thursday nights and if your customers want to shop, we will be open.

So extended hours is part of our plan and we do it today, not to the degree TD does, but we don't need to, at the end of the day. It's a lot cheaper to have a commissioned sales force visit the customer seven days a week than it is to open up your branch because you have to open up the service side of your branch

and you have to open up the account management and the sales side of your branch. So it's a very expensive value proposition, so we will do it selectively and carefully, watching our costs.

The net promoter is the same as I think what we call likelihood to recommend. Our goal is to be number one in likelihood to recommend overall. TD is number one, I believe we're number two and working hard to close that gap. But one thing you have to remember about likelihood to recommend and net promoter scores is it's really correlated to the everyday banking business. When these surveys go out from Synovate and everything, they're asking you who your main, primary FI is, and most customers, 90% of the time, respond that it's where I have my checking account.

So the customer is in the mindset of answering those surveys vis-a-vis their checking account and their primary bank. So it's not a true gauge of the end-to-end relationship you have with the customer. It doesn't translate into home equity market or into the investment market or even to the cards market, for that matter. So we're not saying it's not important, because we fundamentally believe the transaction everyday banking business is very important to us, and for that business this is an important score. So we track it, but we don't believe it holistically measures the health of Canadian Banking at the end of the day.

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**Darko Mihelic - CIBC World Markets - Analyst**

Thank you. A couple of questions. On slide 14, you suggest that your revenue growth CAGR is about 10.5%, significantly better than peers. I wonder if you think that is a sustainable rate of growth for revenues for your business. And my second question is you mentioned that you are rationalizing some procedures and reengineering some of your most expensive processes. I wonder if you'd care to explain or care to share with us how long that will take, when you'll see the benefit of it flow through, and could you give us any numbers around it?

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

I can answer part of your question. I certainly can't give any forward-looking views on my expectations for revenue, given that where we are in the cycle. I can certainly comment on the project holistically. When we brought together all these disparate regional back office processes into one, we really got a true glimpse of all the manual processes that are involved in originating, fulfilling and servicing a mortgage.

It was difficult to see them when they were spread across the country. So now that we're got this end-to-end view of mortgages, largely in our Toronto operation, we see significant opportunity to reengineer this process and it really starts by asking yourself what part do sales processes, do product configurations, impact the back office cost of delivering. So it's not just about saying change the back office, it's about the integrated approach. So what do you need to change at the front end that doesn't impact the customer or your sales ability that helps drive some efficiencies in the back end. So we've been at this for about a year now and it's going to take us now a couple of years to really get at it, given the magnitude.

But we have benchmarked ourselves against a couple global peers who are a little farther along in the development and who are kind of guiding the way for us and it's very, very exciting.

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**Mario Mendonca - Genuity Capital Markets - Analyst**

Along the lines of Rachel's question, she was asking about PCLs and what could happen with this exceptional growth the bank's had. If we take for a moment, and I would agree with the notion that Canada is very different from the U.S. as far as credit losses will emerge, how about just simple growth in the loan book? With mortgage growth, I think you'd agree for the industry, not just Royal, has been exceptional over the last four or five years. With housing starts slowing somewhat, even the rate of appreciation of housing prices in Canada coming down, certainly not anything like the U.S., where do you

see mortgage growth flowing to? Say it was 8% or 9% over the last little while. Where would you see that going to?

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

It's tough for me to give a forecast where it's going. We see housing starts coming in around 220,000, so well above -- and that's the CMHC forecast that came out last week. So you're right, CMHC has forecasted a slight moderation of growth in number of housing starts. They've also forecasted a slight moderation in the average price growth. So that will potentially translate into direct purchase mortgages, maybe slightly down, but don't forget that customers are constantly still refinancing with home equity and home loans. And we still haven't penetrated the entire Canadian customer base yet with our new home equity products.

So it's hard to gauge what growth will continue to come from there, but it will continue to boost the home equity market in Canada. So I see -- the external numbers are saying it's a modest slowing. That could be offset by, again, refinancing and people dipping into their home equity for renovations and consumer spending, so it's very difficult to predict. And we predicted, and I think CMHC predicted, I think 10% last year and the industry's around 12%, 13%. We're at 17%.

So I think we've been under-forecasting home equity growth for a number of years now, and it's not the housing starts that we've mis-forecast, or the average prices. It's more how consumers are using their home equity and leveraging up their homes. So I think it's a variable that has offset growth over a number of years now and would I expect continue to offset any slowing you'll see on the other two fronts.

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**Ian de Verteuil - BMO Capital Markets - Analyst**

This one carries on this issue of the mortgage growth. I accept the difference in the Canadian mortgage book and the Canadian HELOC book and the U.S. But one of the things that I think concerns us all is it does seem as if there is a lot more flexibility in the mortgage products, 40 amort and even higher LTV, where you're not taking the risk through the mortgage product because of the CMHC insurance, but where your strategy as a cross-sell has probably brought you on credit card loans, unsecured loans and other ways.

So you're effectively backing into it, so maybe you could talk a bit about flexibility in the mortgage product. How much 40 amort are you selling? Is there any meaningful shift in high-LTV, even though the mortgage book will be fine? That would be one question.

The second was insurance. I was struck by the fact that, David, it didn't seem as if you -- I think the word insurance was written once, but I don't think you actually said it at all. It seems as if it has been a key part of Royal Bank to talk about insurance through the -- in some form or fashion through your personal and commercial banking side, and maybe you could talk about the strategy on that.

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

Sure. I think on the insurance piece, Jim Westlake will be able to attend I think later on in the presentations. And if you have any specific questions about insurance, he can be more than happy to entertain them.

It goes without saying that insurance is a key part of the customer relationship, whether it's mortgage creditor insurance, disability, P&C. Our strategy of distribution and working together hasn't changed just because of the alignment. And we didn't bring it out in the comments, but it remains a core part of our

relationship view of the customer and how we want to offer that. So that has not changed, and it's just an important part then as it is now. Just remind me again your first question around home equity.

Ian de Verteuil, BMO Capital Markets: (inaudible question -- microphone inaccessible).

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

Extended AMs. So, as an industry, it goes without saying we've seen somewhat almost surprising shift in volume towards extended amortization, and from 30 to 40 year AMs, and we shouldn't really be surprised, because, as banks give advice and as they talk to customers, the conversation turns to cash flow management. Cash flow management is how we talk to our customers, whether they're students, whether they're buying their first homes, they're buying their second homes or they're thinking about how they're going to retire and then they actually retire and they're de-investing and looking at cash flow.

So cash flow is the language of communication with your customer through their entire financial life cycle and helping customers manage that cash flow. So as we talk to customers and as we survey customers, they are managing cash flow and we make them very aware of the absolute cost increase of carrying that extra principle and interest. So as part of our calculators, as we look at extended amortization, it clearly shows that if you wanted to go from a 25-year to a 40-year amortization, your interest carrying costs go from X to Y.

And how customers have responded to that so far is that I understand that, but my intent is not to take this to 40-year amortization, that I will manage this more aggressively, I'm financially aware and I have no intention of paying this off over 40 years, because I don't want to pay that extra incremental cost.

So customers have consistently told us that they plan on managing that. Whether they can all do it or not is a good question, and I think the first step, though, is we make customers aware and we have that dialogue and we work with them proactively and that's part of the advice continuity, that if you're giving good advice, that you make them aware of the pitfalls and the costs of doing that going forward, but it is a customer choice at this point.

So I think customers are going in it with their eyes open, that there's good disclosure and dialogue around it, that they're making cash flow decisions in the short term but have every intent of accelerating repayment of that with lump-some pay downs. And as you can see, it's not just an interest rate phenomena, that we're seeing so much more volume go into variable-rate mortgages as customers try to pay this down.

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**Ian de Verteuil - BMO Capital Markets - Analyst**

(inaudible question -- microphone inaccessible).

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

I can't remember off the top of my head of the insured book. I'm trying to think of the Canadian average, of the high ratio, mostly all high ratio. It might be as high as 20, but don't quote me on that, 20 to 25 in Canada. It's all externally available through CMHC, so we can dig that up for you. It is a higher ratio than most expected, externally. But they're CMHC guaranteed, so we can dig up those statistics

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**Unidentified Audience Member**

In terms of your HISA offering, you talked about 50% of the 500,000 accounts coming in were new money. I wanted to know how successful you've been on cross-selling that segment of the business,

given that it is more price sensitive and it seems like it's more of a fly-by-night customer base. And then of the 50% that actually were RBC customers, are you getting any negative pushback from other areas within your distribution channels, saying that, well, why can't I access this high interest if I don't want to do it through the Internet?

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**David McKay - Royal Bank of Canada - Group Head - Canadian Banking**

That's a great question, and our strategy is clearly whenever we open up a high-interest savings account, we're looking for a companion transaction account, because that is really -- you need the two to operate effectively. So we've been very successful in opening up the companion transaction account. And then that allows us to evolve into a conversation around the multiproduct rebate. And I've got to keep referencing this. It is such a powerful conversation, because saving \$14 times 12 months is a meaningful amount for the average Canadian consumer. Maybe not for the people in this room, but the average Canadian consumer, that's a lot of money and that's great value.

So we start with that conversation and then we're able to bring multiproduct rebate in and it's so easy for your sales force to talk to the customer about helping them save money and consolidate their financial affairs. So we are doing very well and we're extremely happy. We've got record account openings on that front. As far as extending that beyond online to the branch, I would say in the early days of the account, when we launched it, there were a lot of requests, saying, well, why can't we open it in the branch, the customer is sitting in front of us.

We encouraged our staff to do a joint online session, to actually turn the computer around, log the customer into online and then show them and walk them through the process, but then encourage them that they had to transact in that channel. And the noise since, I guess, the first three or four months has completely died down and the customer is very comfortable in this channel and it was more getting our sales force comfortable that we could do a one channel only product. And in fact the customer almost led our sales force in this perspective. And that's why we knew the customer could do this and I think we've been able to move the sales force in that direction, too.

So, right now, given the success we're having, we don't contemplate a need to make it fully available and we save, as I mentioned, from \$150 down to \$5, is a marginal cost of doing a branch account versus an online account, so that's where that 50 million comes from. Thank you.

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**Marcia Moffat - Royal Bank of Canada - Head - IR**

Thanks, everybody. I just wanted to point out one thing in your packages. We suspected that some people may have questions about the Canadian mortgage market versus the U.S. one, so you'll see as an appendix to the Canadian Banking piece there's four slides on the Canadian consumer and a side-by-side comparison of the two markets. So that's a good takeaway for you, but Dave certainly did a great job in covering off the differences. We're going to break now for 15 minutes, and then we'll regroup with George Lewis from our Wealth Management segment. Thank you.

## PRESENTATION

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### **Marcia Moffat - Royal Bank of Canada - Head - IR**

So, if everybody can just settle in and take their seats, we'll get started. Thank you very much.

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### **George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

Thanks very much, Marcia. Good morning, everyone. It's a real pleasure for me to speak with you today as group head of our Wealth Management segment, which, as you know, is just a little over a year old now and it's been a tremendous first year for us. Thanks to the attractiveness of the Wealth Management industry and the size, strong competitive position and efficiency of our business, we enjoy attractive operating margins from increasingly recurring revenue streams. Furthermore, the success of RBC Wealth Management relies on the growth of our clients' balance sheets, and not RBC's.

This provides RBC in turn with additional flexibility to grow in other segments and contributes to the stability of RBC's overall earnings and high credit quality as an institution. Let me briefly highlight how we are outpacing the competition.

In Canada, both RBC Asset Management and RBC Dominion Securities have achieved market leadership and strong financial performance. We have very satisfied clients, very satisfied advisers and strong momentum. The addition of Phillips, Hager & North will create Canada's leading private sector asset manager, to complement Canada's leading wealth manager in RBC DS.

This growing leadership in Canada is complemented by a sizable global presence, and in 2007 we generated 50% of our segment's overall revenues from outside our domestic market. Finally, given the attractive demographics and economics of the Wealth Management business, we are continuing to invest in the future across all of our businesses.

Slide 34 illustrates this out-performance. It's hard to draw a perfect comparison with the other Canadian banks since the banks define their wealth management segments differently, but one thing we know for sure is that we're significantly larger.

Also, these Wealth Management segment revenues for RBC do not include the branch mutual fund advice and distribution business or the self-directed brokerage business that are included as part of our Canadian Banking segment. Now, not only are we more than 50% larger than our nearest peer, we have above-average growth, disproving the myth that big players can't grow quickly and the belief that Canadian financial institutions' operating and financial performance is destined to revert to the mean over time.

Slide 34 shows our historical financial performance. Over the last three years, we've delivered strong results, driven by the leadership in Canada and growing contribution from our businesses outside of Canada. The first quarter of 2008 was a challenging one and reflected a reduction in new issue and other transactional revenue in our Canadian and U.S. brokerage businesses and the impact of a strong Canadian dollar on the reported Canadian dollar earnings of our U.S. and international wealth businesses.

Comparisons with the prior year were also negatively impacted by the presence of certain items in Q1 '07, such as an FX translation gain and favorable tax reversal. Now, although these economic and industry challenges have persisted into Q2, I am very confident about the long-term growth prospects of RBC's Wealth Management segment, especially given the investments we've made. And, as Gord highlighted earlier, RBC has historically pulled away from the competition in times of market turmoil, and we are already seeing this happen today.

Turning to slide 36, the fact that our business has a significant presence in both manufacturing, or asset management, as well as distribution, is a key to our success. Apart from our own Wealth Management distribution businesses, it's important to highlight our single biggest partner, Canadian Banking. More than 75% of our mutual fund sales come through bank channels, through licensed mutual fund reps in the branches and through financial planners and the mobile investment and retirement planners that Dave referred to earlier. These provide expert advice and bring new clients to RBC.

Now, as one small example of this partnership, we host over 50 client events each year with Canadian Banking to provide our expert views on the market and share investment advice. All told, this helps make RBC one of the world leaders in providing investment products with advice through a bank branch network.

Our first year as a global segment together has been a busy one, so let me take a moment to highlight some achievements. RBC Asset Management is once again Canada's top performer and for the second year in a row won the Lipper Award for the best overall fund company for investment performance. We increased our market share in mutual funds to 12.5% and this year we'll grow to 15% with the acquisition of PH&N, which is scheduled to close May 1st.

Now, based on assets under management as of March 31st, as reported by the Investment Funds Institute of Canada, this will make us the number one mutual fund company in Canada. In Canadian Wealth, we've maintained and extended our market leadership by attracting and retaining experienced advisers and other professionals with the best platform to serve their clients in Canada. In U.S. Wealth, we added scale through the acquisition of JB Hanauer and Ferris, Baker Watts will add an additional 330 financial consultants when it closes mid-year.

Also, we improved the operating performance, primarily through increased adviser productivity. Finally, in International Wealth, we continued to increase our presence in markets that offer high growth potential and where we can best leverage our capabilities. This year, we opened additional offices in Latin America, as well as in China and India. Mike Lagopoulos, the Head of our International Wealth Management business, relocated to London, reinforcing our commitment to the core base of clients we have in the U.K. and really a testament to the global reach of our business.

Across all of our businesses, a common theme is the addition of experienced advisers and professionals and the increased proportion of fee-based revenue. Turning to Global Asset Management on slide 39, here's an asset growth chart that we love to show every year, because the story keeps getting better.

Now, there are a number of reasons why we've been able to put so much distance between ourselves and our competitors and have grown our market share by over 40% since 2002. First, we're committed to providing transparency, value and choice to clients. It's our mantra and part of every decision we make.

By transparency, we mean that clients and their advisers can clearly understand how our products work, how they can be used to build portfolios and can clearly understand how much they cost. By value, we're talking about significantly above-average long-term investment performance with significantly below-average cost. Over 95% of our clients' assets are in funds with superior five-year returns and more than 95% of the client assets in our funds benefit from below-average MERs. The two tend to go hand in hand.

Choice means offering clients a range of investment solutions available through many different channels. We offer a choice of purchase options with appropriate fee levels, whether a client chooses to access our products through advisory channels or on a self-directed basis. Turning to slide 41, our investment performance has been a key differentiator for us, and over time we've invested in our talented and dedicated people and have given them the resources that have paid off in the returns that you see on this slide. We've also expended significant efforts on technology, compliance and governance.

Another key to our success is our commitment to innovation, with just a few recent examples highlighted on this slide. Today, our individual clients are increasingly focused on having the financial security to fund

their retirement years and generate a steady stream of income from the assets they have accumulated throughout their working life.

This is a significant area of focus for product innovation, for insurance companies such as RBC Insurance and for ourselves, as asset managers. This focus on outcome-oriented solutions is also closely related to another trend in the institutional market: liability-driven investing, in which PH&N has worked and been a leading provider with institutional investors to match their investment strategies with their anticipated liabilities.

Slides 44 and 45 illustrate our progress over the last five years in asset management. We broadened and deepened our focus on advice-based channels, including RBC's financial planners, as well as advisers at RBC DS and other firms. These channels are among the fastest growing in Canada and have provided valuable advice to clients on the optimal construction of portfolios to meet their objectives, and, particularly important in these markets, on the importance of staying invested, particularly in equities, for the long term.

Additionally, we have strengthened our investment management capabilities and with better equity performance, combined with this focus on advice channels, we've achieved a richer asset mix. I should add that over this time we've increased our assets under management from \$37 billion in 2002 to \$88 billion in 2007, a compound annual growth of almost 20%.

Now, we're just two days away from the closing of our PH&N acquisition, and we remain as enthusiastic as we were when we began discussions. As the PH&N and RBC teams have built broader relationships over the last few months, we've become even more convinced of our cultural fit and shared commitment to clients. Both RBC and PH&N deliver high-value products with low fees and can meet the total investing needs of clients. Both firms offer clients and advisers exceptional choice and value and we're both committed to excellence in client service and investment performance.

A testament to this fit is that PH&N recently ranked number one among all competitors in Canada for client service and received seven Lipper awards in 2008, including for the second consecutive year, Best Bond Fund family. Turning to slide 47, you'll see that with PH&N, our combined share of the Canadian mutual fund market will exceed 15%, launching us into the number one spot. Our complementary strengths are evident on slide 48. PH&N will add a substantial and high-performing fixed-income-oriented franchise to our strength in equity and portfolio solutions.

Their strength in the institutional segment with group pension plans and endowment clients will complement our individual client focus. Our mutual focus on meeting the discretionary investment management needs of high net worth private clients makes us the clear leader in this business.

PH&N also brings a direct-to-investor distribution channel, providing access to professional money management to retail mutual fund investors who do not require an adviser. And we hope to build this business out even further.

All in all, with the combination with PH&N, we will be the asset manager of choice in each asset class and each client segment in the Canadian market. Now, looking forward in asset management, we'll continue to focus on all client segments across Canada to extend this leadership. We're committed to serving high-growth advisory channels and, with our acquisition with PH&N, we'll be particularly focused on serving institutional clients and direct-to-investor channels.

Additionally, we're focusing on full advice group RSP and defined contribution plan opportunities. Now, currently, only 7% of the assets administered by Canadian, U.S. and International Wealth Management businesses in RBC are actually managed by RBC's Global Asset Management businesses. For some of our global competitors, this figure is 50% or more, so there is a clear opportunity for us to increase the proportion of RBC-managed products that are used by our Wealth Management advisers and clients.

The other major area of focus will be growing outside of Canada. We have a firm in the U.S., Voyageur Asset Management, that presents opportunities to increase our presence in the institutional market, particularly by leveraging the combined resources of our Global Asset Management firm. Additionally, we already have some mandates, such as the RBC Global Resources Fund, with top-tier performance not only in Canada, but on a global basis, and that are being used presently by large international institutional clients, and we believe we can expand this further.

Now let's turn to our individual client-facing distribution businesses. In terms of our ability to extend our lead in the Canadian wealth management market, we're confident that RBC is positioned to provide advice to our clients through the channels they value most. In an industry expected to grow at 9% per annum, we have leading positions in the fastest-growing segments of the market, branch advice through the Canadian Banking financial planners, full-service brokerage through Dominion Securities and private client management through our counsel and trust businesses. All of these channels are expected to grow at double-digit rates over the long term.

Our full-service brokerage firm, RBC DS, is number one in Canada and continues to lead the industry. So why are we winning in this business? First, the entrepreneurial, independent culture at DS, coupled with RBC's focus on Wealth Management, strength and global resources of RBC are key factors that attract and retain advisers.

In a recent survey, our advisers gave us top scores among bank-owned, regional and national brokerages. The two highest ratings were in the areas of freedom to make objective product choices, which speaks to our Client First focus and the firm's ethics, which speaks to the values shared by all of our employees. We also scored highly on the quality of the firm's investment offering, the firm's stability, strategic focus, public image and corporate culture.

Clearly, when our people have a positive experience and tools to serve their clients, they are able to succeed and our clients receive a superior experience. Slide 53 shows some of the key drivers of our business. The growth in these numbers speak for themselves, but I would point out that we are increasing both the number of advisers at the same time as we are increasing revenue per adviser, so we're not growing one at the expense of the other.

Experienced and high-performing advisers are not only voting in surveys, they are voting with their feet, and their clients are following them to, and staying with, RBC DS. In addition to Dominion Securities, we are extending Wealth Management services to more Canadians. Our investment counseling business provides discretionary investment management to high-net worth clients. The combination with PH&N's exceptional private client business will increase the number of our counselors and significantly extend our presence in the fast-growing western Canadian market.

Our estate and trust services business provides solutions for clients, their families and businesses and is a clear leader in this field. We have a unique program, called Agent for Executor, designed to assist clients who have been named as an executor in a will. Now, settling an estate can be a complex and time-consuming matter for our clients, and we can provide valuable advice and services for the executor, with multiple service options.

We see significant opportunity for our partners in Wealth Management and Canadian Banking to help their clients with this offering, as we can deliver an exceptional service at a key moment of truth. Beyond the Agent for Executor service itself, providing this valuable advice and support frequently positions our Canadian Banking and Wealth Management partners to earn the trust and future business of beneficiaries, as well.

Now let's move on to the U.S. and our opportunities to grow this platform. U.S. Wealth Management story in 2007 is one of progression in adding scale and improving operating performance. We're proud of how far we've come in this business without losing our independent culture.

Once again, we offer advisers the best of both worlds: access to the global resources of RBC with an investment culture of respect and autonomy. We're committed to helping our advisers become the primary adviser to as many of their clients as possible. Clients for whom we serve as the primary adviser in the U.S. have significantly more assets and generate significantly more revenue with us than our average client. This slide illustrates the steady progression I mentioned.

With the completion of the Ferris, Baker Watts transaction later this year, we will have approximately 2,000 FCs and a national footprint as the seventh-largest firm in the U.S. Given this size, scale and presence, we can no longer speak of ourselves as a regional brokerage firm, but seek to be recognized as a leading national private wealth manager.

Turning to our international business, we are a leader in helping high-net worth clients around the globe meet their cross-border wealth management needs. Our lead offerings in this respect are sophisticated, tax-compliant trust solutions, but we have additional core capabilities in investment management, brokerage, banking and credit. We're pleased to be recognized and trusted globally and have the opportunity to provide clients with a fully integrated offering.

We offer a full-service value proposition for our clients and a total balance sheet approach. Our clients enjoy a single point of contact, a primary relationship manager who assembles a team of professionals across geographies and product lines, drawing on our broad network that includes private bankers, trust professionals, investment advisers, portfolio managers and credit professionals around the globe.

Our international business has strong momentum and, going forward, we are focused on building our onshore Wealth Management business in select markets where we have a competitive advantage, such as the UK, Brazil and Hong Kong, to meet the growing demand for these services. As you can see on slide 58, we've experienced significant growth across our business, moderated slightly in Q1 '08, primarily by the impact of foreign exchange rates.

Going forward, our international business is focused on continuing to increase the number of high-net worth clients we serve and, just as importantly, deepening the relationships we have with the 35,000 clients we already serve across our global network. In looking ahead for growth in Canada, our starting point is very solid. We'll seek to extend our market leadership in the Canadian wealth and asset management market.

Outside of Canada, we will continue to build on our strong foundation in Wealth Management, as well as develop ways to leverage our asset management capabilities in other markets. Across our businesses, we will maintain our focus on attracting and retaining advisers, providing them with the tools to serve their clients and grow their business.

Given current market conditions, the stability and reputation of RBC, combined with our dedicated global focus on wealth management, places us in an excellent position. Now, that concludes the formal presentation and I'd be happy to take questions at this time. Thank you.

## QUESTION AND ANSWER

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### Operator

(OPERATOR INSTRUCTIONS).

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**Michael Goldberg - Desjardins Securities - Analyst**

First of all, looking at the statistics on revenue per adviser in Canada and in the United States, in the U.S., the revenue is about 60% of the level in DS. Do you have a plan, and give us some idea what it might be, of how you might be able over time to get the revenue per adviser closer to the level that it is in Canada? And I presume that's an objective.

And, secondly, you note the importance of dealing with longevity risk as an important goal in Wealth Management going forward. Yet insurance falls in a different bailiwick within the bank, how do you see that evolving so that you have the product to better deal with that objective?

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

Okay, two good questions. With respect to our U.S. Wealth Management business, another factor that you'll note from that slide is our proportion of fee-based revenue in the U.S. is still below our proportion of fee-based revenue in Canada, and those tend to go hand in hand, in my view, because as you orient your business more towards serving affluent and high-net worth clients, as Dave Agnew and his team have done here in Canada, you tend to attract a higher-value client, a higher-net worth client. And those are increasingly attracted to the type of rigor and professionalism that comes with a fee-based approach.

I would say that we can also operate a very sound -- and we do have advisers that operate a very sound transactional practice. Our U.S. business is evolving towards more one of recurring revenue. John Taft and his team are looking at ways to do that. I mentioned the primary adviser initiative. A lot of that is giving them the tools, the products and services and the support to achieve that primary adviser position, which tends to be the one that looks after most of one's client's portfolio, and that tends to be what drives a higher revenue per adviser.

Now, the question about insurance, first of all, I think when approaching the de-accumulation opportunity, and that's the term that we're using internally, it's important to keep in context the leadership that we have demonstrated to date in terms of the growth aspect of the market. Brenda Vince and her team developed with our investment management professionals the leading portfolio solutions in the market, the leading cash flow solutions, which help clients live on their retirement income, and worked very closely with RBC Insurance.

In fact, a couple of years ago, RBC Insurance launched a new line of seg funds, which I think is one of the best in the market right now. I say that because they use low-cost, high-performing RBC Asset Management mutual funds, but they offer very low fees relative to the competition.

So we are very -- working together, no matter what this organizational structure of RBC, I think the message that you can take away from today's presentation is the strong collaboration that Gord referred to earlier and the organizational structure does not get in the way of businesses working together for the benefit of clients. So there's a lot of work going on right now among the different teams to look at this de-accumulation trend and come up with new products to address it. Yes.

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**Darko Mihelic - CIBC World Markets - Analyst**

Thank you. George, I wonder if you could address some of the difficulties in the U.S. market with respect to what's happening in your brokerage force? And what I mean specifically is the auction rate securities market. As I understand it, you may have sold some of that to your clients. I was just curious, what are you telling your clients with respect to what they own, what is it worth? How much have you sold? Is there potentially a contingent liability, because I understand that Ferris, Baker Watts was also a fairly large seller of auction rate securities?

And I wonder if also you can address municipal bonds and how that market looks and what the impact is for your business overall?

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

Sure. I'm going to leave the municipal bond question until later in the day in the sense of really that's part of our Capital Market business overall. But I would say that across all of our Wealth Management businesses, we feel very comfortable about our approach. In terms of Canada, for example, our non-bank asset-backed commercial paper, we did not offer any of those securities through our brokerage network, did not invest in them through our mutual fund business.

In the U.S., we have about \$1 billion of auction rate securities in our client accounts, largely third-party originated and in terms of our assessment of those, valuations, we're maintaining them at 100% of par. We may have further updates when we get to our second quarter results for you, but that's where we stand right now. Yes.

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**Unidentified Audience Member**

I was just wondering if you could comment on your strategy for adding investment advisers in Canada.

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

Sure. I think in terms of just a few numbers to give you a sense of the efforts that Dave and his team have had underway for the last two to three years, we've welcomed over 80 experienced investment advisers from our competitors over the last two years, which is a multiple, a large multiple, on the number that we have said goodbye to.

What we always like to hear, and Dave reinforces this with me every time we meet, is that the first question from an adviser at a competitive firm that we like to hear is why will this move be in the best interest of our client? And we are able to demonstrate to them through the breadth and quality of the products and services that Dominion Securities has, the partnership we have with Capital Markets, which is a global investment bank, the partnership we have with Asset Management, which is a global asset management company - they see the partners that RBC has and the breadth of services that can be provided to their client.

They also are attracted, I think, by the positioning of Dominion Securities within RBC. We feel we've got that right in the sense of an independent investment culture within a dedicated wealth management platform, but it's not forgotten. You saw it represented in Dave McKay's wheel of Canadian Banking as an important partner, an important business to refer clients to for individual security advice.

So it's a combination of a number of things. I think having -- frankly, I'm blessed with a great management team in that business, one that's dynamic and passionate. Dave is on the road 50% of the time, visiting prospective advisers, current advisers. We're also very strong in recognition programs, and that is important in building the culture, not only in attracting advisers, but in retaining advisers. And we have been able to do that based on our culture, the strength of our platform, the strength of our partners and we haven't had to resort to and don't intend to resort to retention payments to encourage advisers to stay here.

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**Unidentified Audience Member**

Some of the things you referenced were lack of scale and perhaps a focus for clients or client preference for international management. Seven years later, do you think Royal has addressed those issues? Does PH&N give you enough scale, or is institutional acquisition something we should think about in order for the size of this business to be built up appropriately?

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

That is a great question, and it's something that we've thought a lot about, and I guess a couple of points. One, the institutional market has evolved over the last seven years. It has grown in terms of the importance to us of serving the retirement market, not only in the individual markets that we serve, but in the group pension plans, defined benefit and defined contribution plans that PH&N brings us, so that we can again be the asset manager participating in the continuum of retirement trends in Canada.

Secondly, PH&N does bring us not only a very strong institutional business but, as I mentioned earlier, important additions to our private client business in the high-net worth area, and our mutual fund business. So there was -- given that firm is a 40-year-old firm, they've done a wonderful job of building a broad-based franchise going forward. And I think the third thing that's changed fundamentally is in our own capabilities and our own ambition to create an investment management business that's not only a leader in Canada, but one that has a presence in the U.S. and internationally.

And so we have now basically brought together RBC Asset Management, PH&N, as of two days from now, and our U.S. manager, Voyageur, under the common leadership of John Montalbano, who will be joining from Phillips, Hager & North. And I think competing as a global asset management company in Canada is a lot stronger competitive position than we were at seven years ago, where we had a standalone Canadian-only institutional manager.

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**Unidentified Audience Member**

Is this me?

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

I'm sorry, I'm not going in order.

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**Unidentified Audience Member**

In the back, here we are.

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

Okay, sorry.

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**Unidentified Audience Member**

George, you mentioned fees several times in your presentation, and I'm wondering whether fees are going to be a growing point of differentiation for your mutual funds?

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

I think they already are in the sense of -- on two components, and really our team has been a leader, I think, in demonstrating to the market two things. One, that lower overall management fees do matter and while we can't point to our 40% increase in market share being driven by any one thing, because we've had great investment performance. We've broadened our channels of distribution, but we do have low fees. And I think over time advisers and clients are beginning to vote with their feet.

At the same time, within the overall cost to the client, we've also recognized the value that advisers play in terms of the trailer fees that we provide to Canadian Banking, to Dominion Securities and our external partners, as well, which is, by the way, the same trailer fee for any partner, whether they're affiliated with us or not. And I fundamentally believe in delivering clients choice. Clients that want to access professional money management without an adviser should be able to do that through products that are appropriately priced, hence our D series that Brenda and her team earlier this year with our Direct Investing business.

And I also believe that advisers are worth what they're paid by clients who value advice, and so that's why we reflect that in our pricing, as well.

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**Unidentified Audience Member**

On the point of trailer fees, am I right in hearing that you pay the same trailer fees to your bank distribution channel?

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

Yes.

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**Unidentified Audience Member**

You do.

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

That's, again, reflecting the increased advice and excellent service that they provide to their clients, and as a 75% distribution partner, we're going to continue to do that. I think I should also point out, just in that regard, that within our Canadian Banking financial planning business, where we do offer third-party funds, that the salary and bonus and evaluation of those financial planners within Dave McKay's team is independent of whether they sell an RBC fund or a third-party fund.

So whenever we approach these issues, we want to win on the merits of our value and service that we provide to our clients, not any additional incentives in that regard. Do we have time for -- yes, Jim.

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**Jim Bantis - Credit Suisse - Analyst**

George, a question earlier about by Darko suggested there's obviously some challenges in the U.S. broker market due to number of products, and does that create the opportunity for Royal in terms of purchasing mid-sized brokers with a few hundred IAs in that market? Do you see firms struggling because of the ARS issues and municipal bonds and other types of products, or lower capital?

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

It's a great question. The short answer is, we've already done that, in the sense of acquiring last year JB Hanauer, and this year we have the Ferris, Baker Watts acquisition pending. We've just also completed what is the largest IT project in RBC's history in terms of converting our operating platform in the U.S. Wealth Management business from a proprietary standalone platform to one that's used by our Capital Markets partners and our Wealth Management business in Canada. And that has been a large, large undertaking.

We have left JB Hanauer as an operating company that's integrated into our management structure, but we still now need to integrate that business onto the new operating platform. We need to do the same with Ferris, Baker Watts. So our focus on the near term is going to be one of execution and improving our operating performance, rather than looking for additional acquisitions at this time.

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**Jim Bantis - Credit Suisse - Analyst**

Thank you.

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**George Lewis - Royal Bank of Canada - Group Head - Wealth Management**

I'm getting the hook. One more question. Okay, thanks very much, everybody.

## PRESENTATION

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### **Barb Stymiest - Royal Bank of Canada - COO**

Good morning. It's my pleasure to be here with Morten Friis to speak with you on our enterprise risk management. Janice will then cover the performance management and the three of us are going to take your Q&A together at the end.

So, turning to page 62, our ability to manage risk is a core competency of RBC, and it's supported by a very strong risk management culture and a comprehensive, enterprise-wide risk management framework. It's a key strength, and we believe that it sets us apart from many of our competitors and it has enabled us to remain within our risk appetite through the market turbulence over the last year and to maintain excellent liquidity.

As Gord mentioned at the outset, the strength of our risk management culture and effective controls around limits has enabled us to avoid having concentrations in problem areas that have affected many of our competitors.

Turning to 63, tone at the top ensures that the principles, policies, processes, authorities and limits appropriate to the nature of RBC's businesses are in place to support an effective enterprise-wide risk management program. An independent centralized risk management group has specific responsibilities for overseeing RBC's risk and has prime responsibility for promoting our risk management culture throughout the organization.

What makes this effective is the shared accountability between risk management and the businesses, as both are responsible for the risk profiles and ultimately the financial outcomes. Further, collaboration with our control functions, such as law, finance and audit, is vital to our overall enterprise-wide risk management program. Morten?

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### **Morten Friis - Royal Bank of Canada - Chief Risk Officer**

Good morning. Let me start with a few words about risk appetite. In our structured and adaptive approach, this is a critical step and it's achieved through a process involving senior management and the Board. The objective here is to end up with a clear articulation of risk appetite that provides clear guidance for the businesses in the development and execution of business strategies.

The wheel on page 64 illustrates the structured approach to defining the amount and risk that we're able and willing to take as an organization. And I might add that we put this exercise down at business levels and so on. It's actually a very helpful approach in helping define how we approach activities, both at the enterprise and at the business unit level.

Regulatory constraints -- so just trying to work through the wheel here of how we come up with our risk appetite articulation. If we start with the regulatory constraints, they define the theoretical capacity of risk for the organization. Our risk appetite is then determined through a set of constraints and drivers. The business strategies and the objectives for revenue growth and profitability drive risk taking within, while the constraints, such as the target of an AA or better long-term credit rating define the limits of our risk appetite.

For operational purposes, risk appetite is then translated into risk limits that guide our businesses in their risk-taking activity. And, at the end, I'll get to an assessment of how we look at our profile against the appetite and hopefully make this fairly dry topic come a little bit more alive. I should emphasize here that

the collection of limits that we rely on are comprehensive and deal with aggregation of common types of risks across the enterprise.

The identification of concentration is a fundamental part of the risk management process and the ability to aggregate and manage concentration across the enterprise is critical. We'll look at concentration from a number of different perspectives. For example, we look at the collection of exposures to specific single name, whether those exposures come through loans, derivatives, trading inventories or investment portfolios. We look at sector, geographic, portfolio or product concentrations to have a comprehensive approach to identifying concentration risks and have the ability to focus on those concentrations that are the most relevant at any particular time.

In areas that don't lend themselves to having risk appetite expressed as hard limits, such as operational or reputational risk, we articulate what tolerance we have for risk, again, to drive the behavior in the businesses. I'd also add that we don't treat all risks as the same, as identical. We use a concept we call mandate and scale. That is, we want to ensure that our risk taking is consistent with our business strategies, that we take risk in areas where we have clear capability and where the market understands that we are active. The potential for income volatility should originate from areas where we have both a strategic focus and well-developed capabilities for managing the risks.

Continuous measurement and monitoring is used to confirm that our risk profile, that is, the actual exposure compared to our established risk limits and tolerances, that remains within our risk appetite. The next three slides give you a graphic illustration of our risk architecture and process. So the risk pyramid on slide 65 is the graphic and tool we use internally as we evaluate and monitor risks on a regular basis. Risks in this pyramid are organized vertically, to reflect the degree of controllability, systemic risks being largely outside of our control, while the risks at the bottom, market, credit, insurance, liquidity and funding, are the most controllable risks.

The risk pyramid provides RBC with a common language and discipline for the identification and assessment of risks in existing businesses, new businesses, products or initiatives, acquisitions or alliances. The risk pyramid is reviewed regularly to ensure that all key risks are reflected and ranked appropriately. I might add that with the recent market turbulence, it's clear that risks have increased and the correlation across risks have also increased.

The point with this slide is there is real value in a clear and consistent identification and classification of risk. The process also facilitates the application of the right discipline and expertise in the analysis and management of those risks.

Turning to slide 66, it provides an illustration of the risk policy architecture at RBC. The point here is that a comprehensive set of risk frameworks provide clear direction on how risks are to be managed, and it is one of our key control elements. The foundation of our policy architecture is the enterprise risk management framework depicted at the top of the slide, sending out the overarching principles applicable to the management of risk at RBC.

Eight risk-specific frameworks provide details on how each risk impacts RBC, the mechanisms for identifying, measuring, monitoring and reporting each risk, key policies and roles and responsibilities. Supporting the frameworks, we have a limited set of enterprise-wide policies. Some of those key enterprise-wide policies are shown on the slide.

For example, RBC's code of conduct is the key policy within our reputation risk framework. In addition, each business unit has specific policies covering activities that are unique to their activities. Turning to slide 67, we provide a simplified view of the processes we rely on to manage the life cycle of products, transactions and business initiatives. For illustration purposes, we have shown slightly different processes for trading businesses and the broad range of other lines of business.

The detail will look quite different for the introduction of a new product in our Canadian Banking business, let's say, and the launch of a new activity within one of the trading business. However, the key point is that, at a high level, we have identical processes and the associated discipline and approach for the full range of businesses within RBC. The details need to be tailored to the specific situations, but we expect and enforce the same disciplined approach and structure across all of RBC.

The New Business Committee and New Product Committees serve as an early screen in terms of identification and articulation of requirements to be met prior to product or business launch, issues like operational and control infrastructure requirements for a new product, business or team are a central step in this process.

Once launched, specific approvals from risk management of each individual transaction is required, in many cases. For simpler products, we offer on the best basis of clear transaction parameters that have to be satisfied and with portfolio and product limits as the primary controls of concentration.

For all products, there is a continuous process of monitoring activity and risks and managing to limits where the limit structure is geared to the specifics of the business and products. For the trading businesses, there are important disciplines for managing market risks. There is ongoing management to value at risk and stress limits. There is a hierarchy of other limits, right down to the desk and trader levels and tools to understand sensitivities and manage the full range of risk variables. Profit and loss decomposition provides important information to both the business and risk management about the risk dynamics in the book.

The independent price verification process ensures that books are marked accurately and areas with reduced liquidity are priced transparently and receive appropriate scrutiny. Finally, for all of the businesses, the option of distributing risk through sale, syndication, securitization, reinsurance or other mechanisms is something that needs to be considered on an ongoing basis. Our view is that portfolios and positions need to be managed dynamically.

It's difficult to give a clear picture of our risk management process, and probably even more difficult to make it exciting, but the points that I've been trying to make in the last four slides are as follows. Number one, we have a clear definition of risk appetite with the full involvement of senior management and the Board.

Number two, we have a clear classification of risks and a strong discipline in the identification, monitoring and management of those risks, number three, the risk policy architecture is comprehensive and is a critical element in the effective management of risk. And, number four, there are strong and consistent disciplines tailored to the specifics of individual businesses for the management of risks through the life cycle of a product or line of business.

So this leads us to the assessment of the risk profile relative to our risk appetite. Slide 68 sets out the seven categories of constraints that we have identified in the process of establishing our risk appetite. For each constraint, there are a number of specific sub-constraints that must be satisfied. For example, the requirements of the rating agencies for a AA rating are well documented in their rating methodologies and consequently we manage to a number of specific metrics in this area to ensure our risk profile is consistent with a long-term debt rating of AA or better.

You'll see that for all the categories we're showing a green tick mark to indicate that we are within self-imposed constraints in all categories. Without going into detail, I would also make the observation that for essentially all of these categories, we have a good margin of error before hitting any of the constraints.

Relative to our peers, our track record of earnings stability is strong, whether you look at a 10 year, five-year, three-year or one-year view. Where tail risk, the strongest mechanism for ensuring that our exposure is low, is the broad diversification provided by the range of businesses that we are in. The

diversification is a deliberate decision and helps keep the impact of negative developments in any one area to manageable proportions.

The performance over the last several quarters illustrates this point. While we've had writedowns associated with the market turbulence, the amounts have been well within our risk appetite and consistent with our view of the range of possible outcomes. Our track record on credit provisions is strong and continues to track within historical averages. Structural interest rate risk is well managed and well within internal limits. Barb will be speaking to liquidity funding and capital management issues next. In the context of the risk profile, I would just observe that we have solid liquidity and funding positions with strong capital ratios and a track record of good access to new capital. In summary, our risk profile is actively managed and consistent with our risk appetite. Barb?

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**Barb Stymiest - Royal Bank of Canada - COO**

As Gord indicated at the outset, one of the biggest issues that the system is facing today is around the funding of banks and bank balance sheets worldwide and, given the challenges faced by other banks, we wanted to highlight the strength of our position.

As Morten just took you through the foundational elements of our risk management processes, I'll just remind you that one of the eight frameworks was the framework for managing liquidity and funding, which does drive our solid position. We believe that the key to our success is the fact that we have made a huge investment in developing a globally diversified funding basis.

We are an active borrower in a variety of markets, currencies and structures, with annual global issuance of between 15 billion and 25 billion a year. For example, last year, we raised term funding in 12 different currencies, including Canadian and U.S. dollars, Euros, Pounds, Swiss francs, Aussie dollars, Yen, the South African Rand and a few others.

Turning to slide 70, the RBC name continues to be very well received in the wholesale markets and we have strong access to both short and long-term funding. While spreads have increased for all issuers, RBC continues to finance at favorable spreads relative to our peers. Our strong financial profile has enabled us to optimize our funding programs.

For example, our high-quality mortgage book was used as a basis for the launch of our covered bond program last October, and we were the first Canadian bank to launch that program and, most recently, we've continued to demonstrate leadership when we decided to access the Japanese market, when we became the first Canadian bank to launch a Samurai program.

Slide 71 provides you with a high-level view of our balance sheet at the end of the first quarter. As you know, we have a very high quality retail and wholesale loan book and our trading assets are predominantly plain vanilla, with very good liquidity. Dave has talked to you this morning about our strong and growing deposit base.

I would add that our wholesale funding needs relative to our balance sheet are well in line with most global banks. Turning to slide 72, as many of you may have noticed, RBC has been an active issuer in April, raising \$7 billion in less than a week from five different issues in three different markets.

Notable issues included the \$4 billion extendable note in the U.S. and the first \$1.4 billion bond under our Samurai program. This activity is testament to our strong access to global term funding markets at relatively attractive spreads.

You will know that the market tone was relatively weak in March and even in early April, so there was some bunching up of issues. However, some of our transactions had been planned for a very long time, such as the Samurai deal, and they were launched according to our predetermined schedule.

I think it's important to highlight that only a portion of the amount raised impacts our capital ratios. Even there, the forms of capital that we issued, such as the preferred shares and the TruCs were non-dilutive, meaning that they were not fully equity substitutes. And, additionally, keep in mind that we closed on the Alabama National Bank transaction and we will be closing on RBTT shortly, both of which require some capital and funding, as neither of these were pure exchange deals, share exchange deals.

And I think you would agree that this is very different from the deals you are seeing by some global banks that are undergoing major funding programs to shore up their balance sheets as a result of suffering major write-downs. So, yes, it was a busy week for us, but I think you can see from the chart on this slide that the overall amount issued was not significantly out of line with previous quarters. In fact, I think it does demonstrate our strong access to the funding market.

Turning to slide 73, our continued funding activity throughout the market turbulence, along with modest upcoming debt maturities over the next 18 months, which you can see, puts us in a very strong position to weather the continuing turmoil in the funding markets or the continuing wide spreads.

In closing, our high-quality balance sheet, diversified funding program and strong risk management has enabled RBC to have consistently strong capital and liquidity positions, and this strength sets us apart from many of our global peers and will serve us well going forward. So, at this time, Morten, Janice and I would be very pleased to answer your questions.

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**Marcia Moffat - Royal Bank of Canada - Head - IR**

We are going to do Q&A on risk management now. Janice is available for Q&A on risk management, and then she's going to speak to you about performance management. I'm sorry, Janice, I didn't let you know that.

## QUESTION AND ANSWER

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**Unidentified Audience Member**

Hi, in the back. Just a couple of questions on risk management. Just can you give a little, or maybe a couple of examples of things you've changed in the current environment, either tightening credit standards or value at risk, or something like that? Just a couple of things you've changed to help give us something solid with how you view the current environment, things like that? And then I have one follow-up.

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

Okay, so in terms of -- I mean, I guess my answer perhaps isn't exactly what you're looking for, because I would say that the approach we are taking is that we have an approach and a discipline that is not intended to change dramatically through the cycle. What changes is, as you see deterioration in specific markets, you move your positions out. As specific markets deteriorate, you'll see risk positions change and you respond to those appropriately.

Now, clearly, it's much more of a dynamic process in the trading businesses than it would be, for instance, in our RBC Bank USA. So as you have a retail commercial bank, you have to take more of a

gradual approach to how you adjust your approach to the market, whereas in the trading businesses you can be more nimble and both reduce your positions where you see risk increasing and the returns not necessarily being there, while in a commercial bank operation you need to then re-gear where you have to focus for new client origination and what approach you take to dealing with new business as it comes in.

Clearly, in the accrual books, as credit markets weaken, one has to be more vigilant about making sure that the underwriting standards are appropriate, but as a general statement, we try, whether it's in Canada or the U.S., to deal with our client relationships on a basis that we are not there just in good times. We underwrite on a standard where, on average, we should be able to stick with clients through the cycle and end up having clients fall off the end where their overall credit quality deteriorates, but not one where the standards by which we deal with whether or not a client is acceptable changes noticeably from one end of the cycle to the other.

We are somewhat driven by market practices in terms of both pricing and the ability to generate revenues, but we try to have that something that affects us at the margin rather than as a fundamental approach to how we're doing business.

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**Unidentified Audience Member**

That's a fair answer, thank you. And, actually, the follow-up on the trading business. Can you just talk about how you think of cost of capital for either traders or against specific assets? Basically, do you charge people for the types of assets they're buying, or is it uniform across the trading business?

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

So Chuck Winograd is the Head of our Capital Markets business, and here he may want to respond. He is here. He may want to respond. Would you like to take that, Chuck?

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**Chuck Winograd - Royal Bank of Canada - Group Head - Capital Markets**

Yes, I mean, we basically -- obviously in terms of revenue, we have net revenue and we're charging out our carry on the basis of a cost that we determine internally, and so each dollar that you manage you're paying your carry cost on. I think, though, that on a broader sense, when I said that we look at our trading both in terms of returns on risk-rated assets and on gross-rated assets and I would say that risk-rated assets is probably more important and just in terms of long term and -- sorry, gross adjusted assets would be something we would look at very closely in the short term.

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**Unidentified Audience Member**

In view of the current credit crisis, there are certain lines of business that you may be looking at scaling back. For example, you are a pretty significant player in the ABCP conduit market in the U.S. and Canada. Do you see that market maybe shrinking a bit going forward?

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

So in terms of the -- I don't know, Chuck, whether you want to deal with the asset-backed market, but just to answer the question directly in terms of another line of business. One of the areas where we've had significant focus is our Builder Finance business in the U.S. and that is clearly an example of where we

are scaling back the level of activity and basically exiting the business that's outside of the footprint of RBC Bank USA, simply because the business is no longer that attractive in those markets and that we want to reserve our capacity for real-estate and construction-related exposures to the clients that we have within the RBC Bank USA footprint. Now, in terms of asset-backed securities, I'll let Chuck take a stab at that.

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**Chuck Winograd - Royal Bank of Canada - Group Head - Capital Markets**

Yes, I mean, basically, in terms of the CDOs, the ABS of CDOs associated with real-estate, we're out of that business, not that there is a real business anymore, but we're out of it. And with respect to the correlation business in credit, we are in the process of running down our portfolio in an intelligent and measured way and we are not doing new trades in terms of correlations. Those would be the two main businesses. Just generally we're being very careful about our balance sheets, but those would be the two areas where we have taken the most significant steps.

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

To add a comment to that answer, because I think you may have been referring to our traditional conduit business, both in Canada and the U.S., and I would say that those are examples of businesses that, in our view, remain viable and sustainable. Essentially the asset classes that are being securitized there are the availability of funding through the commercial paper markets remains solid and so we view those assets, those traditional simple asset securitization conduit businesses as viable and part of our ongoing business strategy.

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**Barb Stymiest - Royal Bank of Canada - COO**

Question over here.

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**Unidentified Audience Member**

Hi. It was a surprise, I think, to many market observers to see that AIG reported that their accountants, their auditors, disallowed or didn't feel comfortable allowing them to rely on their hedges, given the way they were structuring their hedges and given the extreme volatility in the credit markets. And I'd like to understand to what extent your auditors are comfortable with your hedging practices.

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**Janice Fukakusa - Royal Bank of Canada - CFO**

I think I can answer that to the extent that, of course, we haven't got through the second quarter. And the issue with hedge accounting is very complex and there are very prescriptive rules around the types of hedges that are allowed from an accounting treatment perspective so that you can match the underlying with the hedge and eliminate to some degree the accounting volatility.

We have undergone extensive work and our auditors have followed right behind us in checking all of our hedged accounting practices because last year we adopted a new financial instruments standard for Canadian GAAP that forced us to reevaluate all of our hedge accounting practices. So we haven't had any difficulty at all with our auditors in them verifying what we have selected for hedge accounting treatment and the way that we're fair-valuing the hedges.

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**Mario Mendonca - Genuity Capital Markets - Analyst**

There have been a few references to correlations. Morten, you referred to correlations increasing in this environment and Chuck just referred to exiting the correlations trade business. There's also speculation that a senior correlations person at Royal Bank has recently left. And I guess there's just too much evidence piling up here. Could you just sort of talk about the size of that correlations trading business, just so we have an understanding of the magnitude of essentially what could have gone wrong?

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

I think I'll let Chuck take a first stab at that, I'm afraid. Sorry, Chuck.

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**Chuck Winograd - Royal Bank of Canada - Group Head - Capital Markets**

First of all, it's business we're exiting, and that's a question of good news and bad news. I mean, the bad news is that we never made a lot of money in those businesses, and, in fact, we didn't make much money, and that's bad because we -- and particularly in the CDO business of ABSs, we lost a bunch of money.

The correlation business from a credit standpoint is not a big business for us. Again, from a revenues basis, it's not relevant or material and it certainly hasn't been for the last two years. What it does do is eat up a lot of risk-weighted assets, and it's going to take some time to roll it off, because we're going to do it in an intelligent fashion, but that will be the major impact of that business. It will not change our profitability. It will not -- I mean, we've lost a bit of money in it over the last two years, but it has not been a major bleed. But what it will do is free up a considerable amount of risk-weighted assets and capital when we get out of it.

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**Mario Mendonca - Genuity Capital Markets - Analyst**

Are you referring to that business that was discussed in the Q1 '08 call, the credit derivative businesses, longs and shorts?

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**Chuck Winograd - Royal Bank of Canada - Group Head - Capital Markets**

No, this is credit correlation. This is [GE]. This is just generally a credit correlation business where we're writing business for clients and basically we're generally trading on a correlation business.

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**Mario Mendonca - Genuity Capital Markets - Analyst**

But that's the business with the \$400 billion in notional.

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**Chuck Winograd - Royal Bank of Canada - Group Head - Capital Markets**

No, it's not. That covers all of the derivatives we have in the business.

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**Mario Mendonca - Genuity Capital Markets - Analyst**

Credit derivatives in the business, and this is just one piece of that.

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**Chuck Winograd - Royal Bank of Canada - Group Head - Capital Markets**

This is just one piece of it.

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**Mario Mendonca - Genuity Capital Markets - Analyst**

Can you share with us --

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**Chuck Winograd - Royal Bank of Canada - Group Head - Capital Markets**

I just don't have the actual number in my mind. I don't think it's a secret. I just don't have it in my mind.

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**Mario Mendonca - Genuity Capital Markets - Analyst**

Thank you.

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**Michael Goldberg - Desjardins Securities - Analyst**

Thanks. Can you give us some idea of what kind of new disclosure we're going to see in the second quarter to bring you into compliance with the Financial Stability Forum, as Gord said you will be at the start of the day? And I've got another question, also.

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**Janice Fukakusa - Royal Bank of Canada - CFO**

Okay, thanks, Michael. We will be overlaying all of the disclosures, so I think the major things that you will see -- and, by the way, we are substantially in compliance as of today with our Q1 reporting. So we will be actually putting things in a little more easier formats to read, tabular forms, and disclosing, of course, our judgments around any writedowns that have been made, the growth, notional exposure and our monoline exposure, all of the elements that our investors need in order to first of all understand the judgments that we've made in difficult market conditions and also giving our investors enough information to make their own judgments.

So that's what we mean by substantially complying, and I think that in Q1 we increased our disclosure quite a bit to put a lot of those aspects out there.

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**Michael Goldberg - Desjardins Securities - Analyst**

Okay, and my other question is, credit migration has been weakening at Royal for several quarters, with net formations increasing quite a bit more quickly than loss provision, eroding your cushion of surplus allowance. And so what I'm wondering is whether net formations have continued to increase from prior-period levels and how much you're prepared to allow your surplus allowance to weaken further and to turn into net nonperforming loans.

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

Just to start, I can't comment on the numbers for the second quarter, and maybe the easiest way to get at this conversation is to talk about our methodology for provisioning. Because if you look at the provisioning methodology for our commercial and corporate loans, it is all on a specific basis. It's on a file-by-file review and the size of the provision is a function of the specifics of the individual file.

As you get into the retail portfolios, small business, through the general retail portfolios, they're all done on a coverage-ratio basis. So as ratings migration occurs, you'll have the provisions rise on a coverage ratio basis for those portfolios. So the outcome in terms of overall coverage ratio for the institution is really a function of how we view the individual portfolios.

It is natural that as you have a migration into weaker credits that the provisioning will gradually come in over the quarters as you go from having accounts that move into watch list and criticized status to ones where there are non-accrual and provisioning is required. So the coverage ratio I think is a useful measure to look at and certainly something that we track closely, but we don't set the provisioning to achieve a coverage ratio. The coverage ratio is an outcome of our view of the quality of the portfolio.

So if you assume that we will then over the next few quarters have the current watch list and criticized book in part migrate back to full performing or no longer watch list status and in part migrate into non-accrual and potential provisioning status, you will then see the provisioning actually increase and, assuming a stable portfolio, coverage ratios likely would increase because you have a larger part of the portfolio that reaches the point where provisioning is required and the assets have yet to be written off.

That might be a long and convoluted answer to your question, but the point is we do not manage to achieve a coverage ratio, we watch it closely, because it is an indication of the overall quality of the book and how we're positioned for further deterioration, but it is, frankly, more of an outcome than an input variable.

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**Unidentified Audience Member**

I was just wondering if you could address some of the risks around hedge funds and also within the prime brokerage segment, just given leverage and the correlation type of trades that we've seen clients doing and the pockets of risk that we've kind of witnessed over the past six to eight months? And I have a follow-up.

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

Sure, and again, just for clarification, my comments or references are external disclosure through the first quarter. I cannot specifically comment on second quarter numbers. I mean, we have business with hedge funds across a number of different sub-businesses. Some of the more important ones are we have a small, predominantly Canadian prime brokerage business that has operated throughout the last many quarters on the same basis we've had previously. Actually, it's a low-risk, well-run operation where the funding that's required is overall relatively modest.

I think we have disclosed this in previous quarter, it's in the hundreds of millions of dollars, generally as much as \$500 billion worth of funding through prime brokerage. We have a derivatives business, plain vanilla derivatives with a range of hedge funds, operating on a fully secured, collateralized basis with credit support annexes with ISDA.

We have a very thorough due diligence process before we start dealing with hedge funds, so we have people go out, review the hedge fund, their control infrastructure, their business strategies, their execution and then the predominant amount of activity that we deal with them in the derivatives business is in plain vanilla liquid products on a fully collateralized basis.

We have some degree of more structured or exotic derivatives products, a smaller volume of business, again, on a fully collateralized basis. We have through our custody business, through our independent International Wealth Management business, a volume of pure really FX and funding of redemptions and liquidity as people move in and out of hedge funds, where we are the custodian and/or trustee of the funds of hedge funds. And it's FX and short-term funding, again, very well controlled and manageable numbers.

We have, finally, through our alternative assets business, a significant activity that is hedge fund related, but where the risk on the hedge funds are with our clients who we provide them through the alternative assets business hedge fund returns primarily through derivative structures, but where, as I said, it's over-collateralized, well structured and the risk on the hedge funds are the risks of the client.

I would say that through the end of the first quarter, if you look at our hedge fund client base, while there's been a certain amount of activity in the market, some people saw significant redemptions in their various funds, the experience we've had with our hedge fund client base is that, first of all, where there had been redemptions or reductions in NAV or collateral calls all has operated extremely well. And, on average, the hedge fund client base that we deal with directly has not seen any significant deterioration in terms of their performance.

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**Unidentified Audience Member**

Just to follow-up, in your opening remarks, there was a comment regarding lower financial leverage and in light of what we've seen in the UK regarding banks rebasing their core Tier 1 targets, how do you see this affecting your longer-term targets?

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**Barb Stymiest - Royal Bank of Canada - COO**

I think we are very satisfied with the capital levels we've sustained over a long period of time and you've seen the stability in our Tier 1 ratios. I think OSFI's target at 7% may be adjusted I think after a few more quarters of familiarity with the Basel II reporting.

With the changes that have happened in the marketplace as a result of the market turmoil over the last nine months or so and going up and of course looking at Q1. We're not seeing dramatic change in our balance sheet, which ultimately will drive our capital ratios. It is an important component of the calculation of the Tier 1 ratios, but we'll continue to be proactive in managing, as Chuck indicated, both our risk-weighted assets driving Tier 1, as well as our gross adjusted assets, which drive our leverage ratios.

So I think you'll see more focus on it. It's clear in the marketplace that strong banks that have liquidity are being -- their customers are turning to them to provide funding, and so as weaker players are not able to provide funding into the marketplace, there will be pressure on strong institutions to grow their balance sheets, but we'll do so prudently and make sure that we price appropriately.

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**Ian de Verteuil - BMO Capital Markets - Analyst**

Morten, when I think about the variety of markets that have given problems over the last nine months, whether they be auction rate or non-bank sponsored or then bank sponsored ABCP, can you talk us through how you think through the evolution of a market as it loses liquidity? And how do you work through the process of valuing those various books of business? And how does it back into maybe throwing up more capital so the businesses know they have to rein in risk.

I don't know if you want to pick something like maybe the bank-sponsored ABCP market, which has had periods of time where it hasn't felt that liquid, and how you go through the process of valuing current

clients, starting with your own book, but also valuing for clients what the risk of what they have is and how it throws up capital.

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**Morten Friis - Royal Bank of Canada - Chief Risk Officer**

Okay, that's a good question, probably hard to answer. I'll give it a stab. I think first of all, fundamentally, when you look at individual markets as the liquidity is drying up, the first question has to be what is the nature and quality of the business franchise that we have in that market? Because to the extent that it's an important part of our overall business and you have a range of clients attached to our activities in those markets, it takes on a different flavor than to the extent that it is more of a proprietary business or a business where the client consequences of withdrawing are much smaller.

So you mentioned the bank-sponsored asset-backed market, for instance. That is a well-established, important business for us where we have a broad range of relationships, both with originators of product servicers and investors. And so if our view is, as it has been on that market, that that is a viable ongoing market where you may have to manage through a short period of liquidity, not being quite as strong as it had been in the past, it's a relatively straightforward decision to say, can we cope with the liquidity consequences of actively supporting that business? Is the view that that business will come back in the near term and function more normally? Is the profitability risk and business rationale for being in it strong and you stick with it?

Similarly, I mean, you mentioned auction rate securities. It is attached to, or sitting right next to, our overall municipal business, so it is fairly close to an important part of our overall business. So you end up having to make the decisions in the context of how do you deal with that impact on both, in that case, investors and originators of products and how do we make sure that the clients at both ends are dealt with appropriately, given the nature of our activities? And then how do we deal with working our way through to do the problems in that market.

So the contrast between auction rate securities and the bank conduit market is extremely stark and the bank conduit market is actually essentially worked pretty much normally throughout the whole period. In the auction rate securities market, we have a case where there is a flawed liquidity model. It clearly will take a period of months and likely years for those issues to get refinanced in other markets, but you there have a view that actual the underlying asset quality is strong, so our ability to stay with the product and deal with it then comes down to perhaps the most unanswerable part of your question, so how do you value securities in a market that's largely frozen?

So, I mean, you've seen other participants in the market take a variety of approaches to exactly how they deal with that. And my own comment on that would be that it's partially driven by the specifics of their circumstances as much as the ability to attach a firm value to it. But, clearly, back to Janice's answer on hedges and so on, it's a very similar process that as markets become less liquid, the ability to have a clear view of what is fair value, whether you think of that from an economic or a financial statement purpose narrowly, it becomes more difficult.

You end up having a wider bid offer, if you like, on the ranges you might have to consider for value. And we then go through and, again, in our quarter end close process, the discipline and drill around -- and it's driven in a market risk sense off of our independent price verification process, that for all of those markets where there is poor price visibility, where you're relying either on models or where you have no observable parameters and few useful models, you end up having to take a much more thoughtful, a longer process, to try to establish what is under those circumstances the fair value to attach to that.

And so at the margin that decision becomes driven by, so what are the hard requirements, an available for sale set of criteria that you attach in a financial statement context? So we had a little side conversation on auction rate securities. If you look at auction rate securities, the underlying credit value of the student

loans auction rate that we have some number of in our inventories is one where the underlying value is clear. The credit quality is not in question.

So to the extent you take the view of the maturity of the underlying securities, which extend out 20 and 30 years, the quality is not in question, until they get refinanced in a price context of what is the fair value you attach at any one point in time, there clearly is the potential for some variability in what that number is. I don't know whether that comes close to answering what you were looking for.

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**Sumit Malhotra - *Merrill Lynch - Analyst***

Okay, this one is actually for Janice as well. TD helped us out last week on their closing call for CBH. I was hoping you could do the same. Could you talk about the level of marks that was required for the Alabama loan book on closing and how much of the purchase price was allocated to goodwill and intangibles?

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**Janice Fukakusa - *Royal Bank of Canada - CFO***

Sumit, I can't really talk about that now because we haven't really closed our purchase price equation yet, and we will have that closed by the time that we report our second quarter results. So we're in the process of working through all of those adjustments and working through them with our auditors, so at this point in time I can't talk about any of the details of the adjustment. But you'll see it fully in our disclosure once we get there.

## PRESENTATION

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### **Janice Fukakusa - Royal Bank of Canada - CFO**

Good morning, everyone, and yes, it is still good morning. It's quarter to 12, and you've heard from George and Dave, who talked about their businesses, and then Morten and Barb gave you a perspective on our overall risk framework and how we're working through the environment.

So today I'd like to take a few minutes, only a few minutes, to talk about our approach in the current environment, specifically about what we're doing to ensure we continue to be disciplined in managing both revenue and cost initiatives. And I'll then take you through how our performance management framework works and provides our business leaders with the critical tools they need to help plan and execute their strategies while prioritizing all the activities for greatest impact. And I think that's where we're at in today's environment, is that constant prioritization.

As we look at the current environment, our focus on our strategic goals and our medium-term objectives is very clear. The gut reaction of many companies faced with this sort of environment is to actually cut off all investment spending to meet short-term performance metrics. That's not our approach at RBC.

There's no question that we're actively managing our cost, and given our position of strength and stability relative to our peers in Canada and around the world, we also see opportunities where we can grow, and George and Dave spoke somewhat about some of those opportunities we see. Specifically, we see a chance to capitalize on the current market disruption and the slower economy and, by being disciplined about our cost and our investments, we believe we can emerge even stronger than before.

Very simply, we know we can further differentiate ourselves from our competition by selectively investing in the future. That being said, in today's environment, at the margin, we will remove \$1 of cost wherever we can, rather than relying on the generation of that additional \$1 of revenue.

But even in the face of today's challenges, you shouldn't mistake this hard line on expense growth as a reduced commitment to enable profitable revenue growth. We know that it's impossible to continue to grow if we eliminate investments in our businesses, and that's why we don't set arbitrary cost reduction targets.

Our focus is on managing the rate of growth of expenses, which will support an even higher rate of growth of revenues. Our proven ability to manage the pace of expenses and investments is aided by our performance management framework that I'll discuss in a moment. We believe we're well ahead of our peers, as we have the ability and resources to rein in the expense growth levels while still supporting the businesses.

In today's environment, given where we are, we're focused on cost management, capturing a lot of the early wins by near-term belt-tightening on our annual discretionary spend. Our annual discretionary spend is about \$1 billion a year, so it provides us with ample opportunities to belt tighten. But we're also making more permanent changes to support revenue growth and reduce costs. This includes reducing the duplication of activities and rework, streamlining processes, automating and engaging in smart sourcing, efficiently using our premises and building technology capacity.

The notion of revenue growth is always part of all cost-management discussions at RBC. We've added many points of access and advisors, allowing clients to get advice when and where they need it, while removing costs from the back end to allow us to invest heavily in client-facing activities and the key drivers of profitable revenue growth.

Dave and George talked about before, previously, when we launched Client First, and how we went on a very active cost management program and reduced our costs in order to fund around 3,500 of the highly qualified client-facing staff that we added to our branch network to provide our clients with the high-valued service and advice and drive our revenue growth.

As Dave mentioned, we have undertaken several streamlining approaches and activities, centralizing administrative tasks in the service center and we've gained further efficiencies by actually streamlining the service centers. And today our cost management effort there is focused on staying diligent so that none of that activity creeps back into the branches.

And to further support our efficient revenue growth, we've created greater capacity in technology development. Using our resources in Canada and leveraging outsourcing and offshoring of application development and maintenance services, we've been able to get scale and flexibility to increase our capacity. In fact, we've increased our application development capacity by over 20% over the past two years to support a lot of the strong revenue growth that you've seen in our results, while containing the cost of that development at a much lower rate.

We'll continue to leverage this approach to offshore arrangements as an effective means of meeting our ever-increasing demand for technology development. Our technology platform remains a great competitive advantage for us and will continue to set us apart going forward.

On premises costs, we're actively looking at and implementing alternate work arrangements, alternate work spaces, in order to optimize use while providing arrangements that allow more flexibility for our employees. And we're moving employees to lower-cost and greener office environments and the most visible indication of that is the RBC Centre that's being built by Cadillac Fairview just west of the downtown center that is a highly green building and also will lower greatly our occupancy costs in the downtown core.

Finally, there's several transformational initiatives across the businesses to increase efficiencies and, as you know, because of our diverse business mix, each business is at a different point in the cycle so the opportunities differ. So I just want to give you a few examples of what's happening.

In business and commercial banking, as Dave mentioned, the commercial credit process is being redesigned to improve client experience and reduce costs. Personal banking is looking at ways to leverage the size and scale to become a low-cost producer of certain products and capital markets is reducing its cost in stressed businesses. It's also trimming in other areas to free up the resources to take advantage of any opportunities to acquire new talent or teams.

These are just a few of the examples of how we're focusing on near and long-term levers for efficiency improvements across the enterprise. And, as I said at the outset, we use the performance management discipline to help us manage the effectiveness of our cost and revenue initiatives.

While it's not necessarily a very complex framework, it's proven very useful in monitoring our performance because of the quality of information used from the outset. And if you turn to slide 78, you'll see that we align all of our targets with medium-term objectives of attaining top-quartile performance. We set our targets by looking outward to determine the growth rate required to achieve and sustain our medium-term objectives and then our leaders, in turn, translate these growth rates into plans and activities, effectively committing to achieve rates through certain of their activities.

We look at all the commitments and trends over a three and five-year outlook to determine the balance that we need between revenue growth and cost efficiencies and what is required to drive our medium-term objectives. And then the performance of the initiatives is constantly monitored so that we can have the flexibility of making adjustments to the initiatives if things aren't tracking to where they should be or if market environments change.

And during the course of the year, we actually refresh our forecasts quarterly to see what that trajectory is. The key to our success in performance management is the quality of the inputs that we have and this is kept high because of the great partnership with the businesses. It's a management tool that is used throughout the enterprise that makes it easier for us to drive our strategies into effective execution.

If you turn to slide 79, you'll see the performance management cycle. It's basically a cycle because it's an iterative process that really feeds throughout the year, and so let me just quickly take you through it.

The important part of the cycle that I haven't touched on -- I've touched on the target setting, the goal setting, what we do to monitor and underpin the growth and then you get to the review of the businesses and it's hard to argue whether this comes first or comes at the end. What we do at the end of the cycle is go through a review line by line of each business to identify any opportunities for accelerated growth and to look at any white space opportunities, that is, opportunities that are outside of our traditional boundaries.

And in doing so, in constantly reviewing our businesses and the performance and the initiatives and the target setting, we refresh our three-year and five-year cycle for target setting. So that's how we have a trajectory into ensuring that we achieve our medium-term objectives of top-quartile shareholder performance.

On slide 80, the next slide, you'll see a real-life example of the performance management cycle in action, as applied to the high-interest savings accounts, our very successful product that Dave talked about earlier. So I'll leave this slide with you to go through at your leisure in terms of all the steps, but I think that you'll recall that Dave talked about how it was enacted, how the targets were set and how overall it's being monitored and measured and the success and profitability of the actual product.

What we find at RBC is of course what gets measured gets actioned, and so it's quite an effective and strong tool at ensuring that we can check the trajectory. Our disciplined approach demands that business leaders execute their strategies and prioritize for greatest impact. As a result of our commitment to the process, we will not be forced into a position to sacrifice long-term success of our businesses for short-term gains. We're always looking at a medium-term trajectory in addition to looking at our quarterly and annual positions.

We're very aware of the market pressures confronting us today and we'll continue to use all the levers available to enhance our efficiency and effectiveness in order to be flexible and continue to support enterprise-wide business growth and activity. So that's all that I wanted to tell you about performance management. So I'd like to now take any questions that you may have, and then I'll turn it back to Gord for a wrap-up.

## QUESTION AND ANSWER

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### Operator

(OPERATOR INSTRUCTIONS).

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### Michael Goldberg - *Desjardins Securities - Analyst*

My question relates to your comment about what gets measured gets actioned, and a lot of things that get measured are heavily dependent on things like transfer pricing, cost and capital allocation. So what kind of assumptions do you make and sort of different scenarios do you look at for these types of issues? And I'm looking specifically, what kind of control do you actually have, ultimately, over the let's say transfer pricing for funding between wholesale and retail, whether it's the average cost for the bank as a whole or what the cost of funds would be on a non-recourse basis to the parent bank. Is that just a given that you have no control over, or is that something that you can look at under different scenarios?

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### Janice Fukakusa - *Royal Bank of Canada - CFO*

Thanks, Michael, for that question. Of course, transfer pricing is all in your control and it's another lever that we use from the performance management perspective. With respect to your specific -- and transfer pricing is also an exchange because everything has to add up to the whole. It's a zero-sum game. In

some organizations, people spend a lot of time negotiating transfer pricing and not really thinking about generating the value, the additional revenue from outside of the group.

What we do with respect to transfer pricing is we look overall at our transfer pricing frameworks and metrics because there are some things that are direct costs that you can actually attribute to an activity. There are things that are enterprise costs, where costs of running the infrastructure have to be allocated.

We feel that all of that should be reviewed once a year only, because if we don't set a hard stop at reviewing it, you can have a lot of internal negotiations and really lose focus on our clients. With respect to funds transfer pricing, its through our Corporate Treasury unit, we transfer price out all of the interest rate risk off of our structural balance sheets into the center. And then Corporate Treasury manages all of our funding and liquidity and we will back charge to the businesses that additional cost of liquidity and funding as we're realizing it. So it's real-time based, but it doesn't shift tremendously at the margin because, as you know, in today's environment, as our funding costs are increasing, it will take some time to re-price the whole book.

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**Gordon Nixon - Royal Bank of Canada - President, CEO**

Okay, if there's no questions, thank you, Janice, for finishing up for us and I would just conclude by flipping to slide 83 and just make a few very brief final remarks. As you've heard today, we do feel that RBC is extremely well positioned to win in the current environment. In Canada, we have market leadership and are differentiating ourselves through both advice and collaboration across the organization. You've heard a lot about collaboration this morning, and I would say that at RBC, I believe we collaborate across our various businesses as effectively and as well as any competitor that I've seen anywhere in the world.

We are also well ahead of our peers on technology investments that we're making across our businesses. Just as an example, the one that George mentioned this morning, our broker-dealer project in the U.S. is the largest technology project that we've ever undertaken as an organization. We spent a lot of money, more than we had anticipated, but the good news is that money is now spent and accounted for and hopefully we'll start reaping the benefits from those investments down the road.

We also believe that the Canadian economy and the consumer fundamentals within this country are sound and certainly our core strength in Canada is a significant advantage and positions us much better than many banks whose core domestic marketplace, and I particularly highlight here the U.S. and the UK, but other parts of Europe as well, are operating in.

Our scale, financial strength and brand is also attracting clients and advisers both here and in Canada. Our access to liquidity is good and we have a disciplined approach to risk management and performance management measures, as you've heard this morning.

A lot of what we talked about this morning related to execution across the organization and, as I have said many times, while strategy is critical to the success of a financial institution, execution is even more so. And one thing that I would comment on is when you look across our organization, I think one of the top priorities of a Chief Executive Officer is to ensure a strong management team and I would certainly say with tremendous pride that we've got an extremely strong management team across our businesses and functional activities and you've seen I think good evidence of that in their comments this morning.

So we are certainly, as we've talked about this morning, dealing with the challenges that face us in today's market and environment, but we think we've got the capability to deal with those in a very effective way, and certainly I look out at the future with tremendous confidence, as we look down the road in terms of our opportunities to take advantage of some of the turbulence in the market.

Now, the one request we have before we finish is you will find a blue piece of paper in your packages, and this is our survey for today's event. And we would very much appreciate that you fill in the survey. We are trying to make our investor meetings like this as much about what you want as opposed to what we

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want to talk about, and we certainly have listened to your questions in some of the areas we've discussed this morning.

We want to make it as open and as transparent as we possibly can, so we would appreciate your input in terms of areas where we can do better on that front. So please take a minute to fill out that survey.

Once again, on behalf of all of the management team that presented or is here, we thank you for participating, for joining us this morning and hopefully you'll all enjoy the afternoon. Thanks very much.